Expanding chains vie on hot turfs

Sunbelt competition sizzling; other markets are heating up

NATIONAL REPORT—The accelerated expansion and hypercompetitiveness that characterized the home center industry in 1983 should continue this year, certainly through the first several quarters.

While interest rates remain something of a question mark, November's election, in the eyes of many observers, will provide strong incentive to keep the economic recovery on track.

Many metro markets can expect to benefit from this home center activity. Some, like Houston with 22 Handy Dans and eight Payless Cashways, along its highways, have had long-time romances with the industry that promise to become even more torrid this year as at least two warehouse chains come courting.

Other markets, like Tucson and Indianapolis, are just beginning to explode. In Tucson, both Payless Cashways and Phoenix's O'Malley Building Materials last year took the acquisition route to penetrate the area with stores. Those moves were probably just the beginning of the assault by both chains. And The Home Depot, which is now heating up retailing in Phoenix, could soon drop a few stores in Tucson.

In Indianapolis, several major chains, including Payless are going head-to-head and recently Sutherland Lumber and Central Hardware launched warehouse store assaults on the market.

Still other markets, like Albuquerque, seem to be relatively dormant Sunbelt centers with huge potential that could soon explode with building material retailing competition.

For one thing, Americans are again on the move. While realtors and home builders warn that housing affordability still eludes a great many people, sales of both new and existing homes improved dramatically last year. The growing acceptance of adjustable rate mortgages and favorable builder financing should keep housing momentum strong.

A few numbers demonstrate housing's improvement last year, prompted, to a large extent, by a decline in interest rates that saw the rate of conventional mortgages decline from about 15.3% in September 1982 to 12.9% 12 months later.

During those months, 2.7 million existing single-family homes were sold compared with 1.9 million for the same period a year earlier, according to the National Assn. of Realtors. That 43% increase, while substantial, is dwarfed by the 99% hike in condominium and cooperative apartment sales over roughly the same period, with 253,000 sold during the third quarter of last year compared to 127,000 during the same quarter of 1982, according to realtors.

And in 1983, new home construction bounced back from its worst year since World War II, with total housing starts expected to total about 1.6 million, about 60% greater than the production for 1982.

This increased transience had a beneficial effect on the sales of building materials which were up 16% for the first nine months of 1983 to $36.7 billion, according to the Census Bureau. For the first nine months of 1982, sales totaled $31.6 billion, according to the Bureau.

How those sales increases were played out in various United States markets is the subject of this *NHCN* special section. Besides the markets already noted, metro market studies in this issue also reveal that:

- Tulsa may be a market about to happen, with a burgeoning population drawn by aerospace and oil industry jobs. The first new home center in five years, a Sutherland warehouse, opened in September.
- St. Petersburg is hot and getting hotter. Despite The Home Depot's invasion last year and the opening of five new Scotty's, industry observers insist that there is still room for more competition.
- The Raleigh-Durham research triangle has many of the ingredients for home center prosperity, such as affluent, professional consumers and a growing housing stock. The area has been a rich source of sales for Lowe's and other chains, now including Hechinger.
- Phoenix, which has traditionally been a strong Sunbelt market for regional chains, is shaping up as an intense battlefield as The Home Depot and Payless Cashways, two of the industry's toughest competitors, face each other head-to-head for the first time in the fight for Phoenix's DIY dollars.

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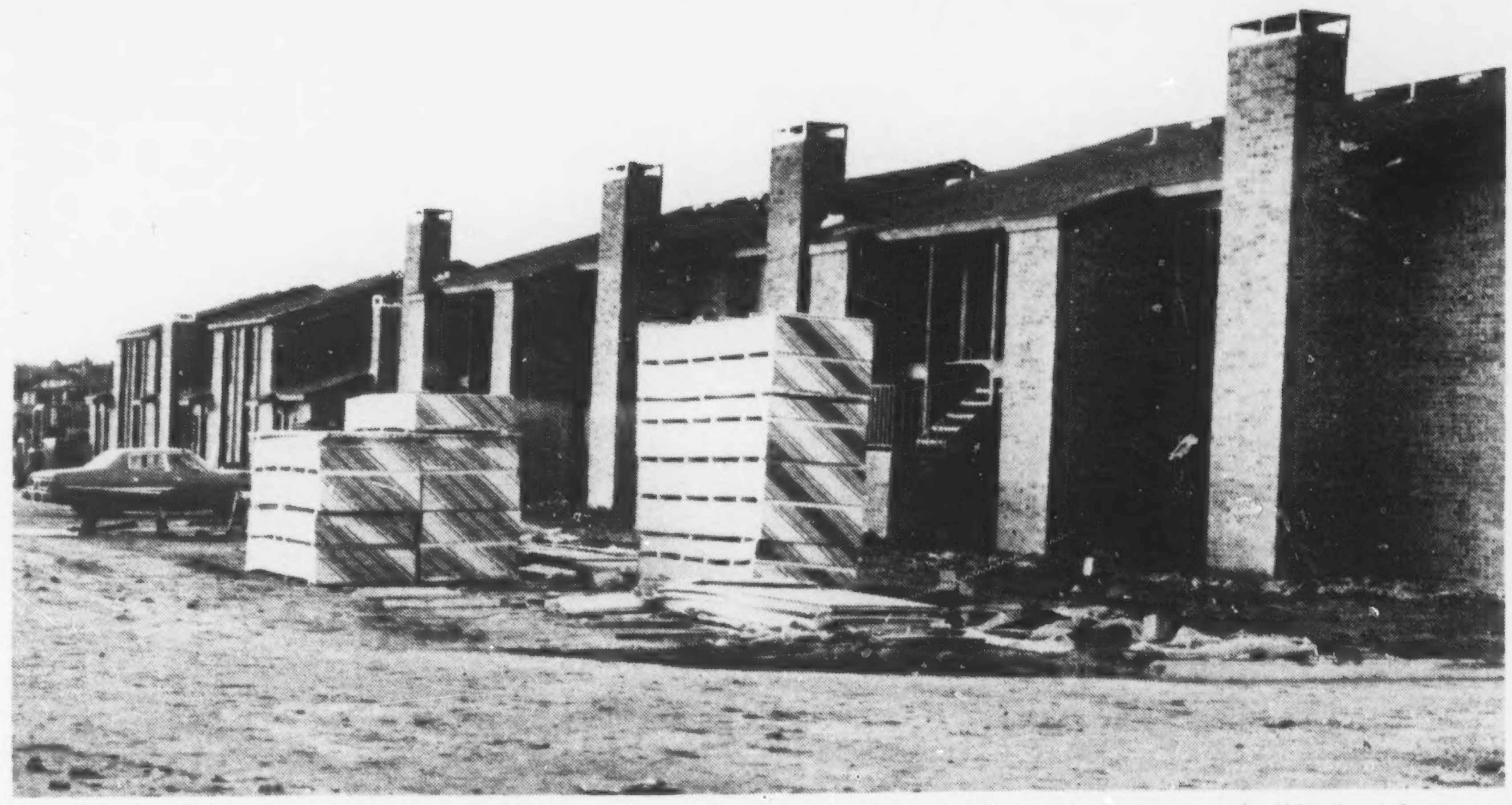

Apartment construction in Tulsa, Okla., where job opportunities in the aerospace and oil industries are spurring population growth and setting the stage for a boom in retail building materials sales.

NHCN photo

Retail building materials and hardware sales

1982 Rank	Metro area	Sales (in millions)
1	Los Angeles/Long Beach	$ 1,257.1
2	Chicago	944.7
3	Houston	874.9
4	Detroit	741.5
5	Washington, D.C.	717.5
6	Anaheim/Santa Ana, Calif.	667.6
7	Seattle	609.6
8	Minneapolis/St. Paul	601.5
9	Boston/Lowell/Salem/Lawrence/Brockton	599.3
10	Riverside, San Bernardino, Calif.	562.1
11	Philadelphia	556.4
12	San Diego	538.1
13	Atlanta	512.9
14	New York	508.1
15	San Jose, Calif.	415.2
16	Pittsburgh	406.3
17	Baltimore	381.9
18	Nassau/Suffolk, N.Y.	363.9
19	Sacramento, Calif.	360.7
20	Denver	353.7
21	Dallas	347.9
22	Phoenix	343.1
23	Tampa/St. Petersburg/Clearwater, Fla.	342.2
24	Oakland, Calif.	334.7
25	St. Louis	298.9
26	Miami/Hialeah	298.2
27	Cleveland	284.2
28	San Francisco	280.2
29	Fort Worth/Arlington, Tex.	278.6
30	Indianapolis	269.1
31	Charlotte/Gastonia/Rock Hill, N.C.	263.0
32	Fort Lauderdale/Hollywood/ Pompano Beach, Fla.	262.2
33	Norfolk/Virginia Beach/Newport News, Va.	255.0
34	Cincinnati	247.0
35	Louisville, Ky.	235.7
36	Columbus, Ohio	232.9
37	Portland, Ore.	232.7
38	Greensboro/Winston-Salem/ High Point, N.C.	232.3
39	Newark, N.J.	230.9
40	Birmingham, Ala.	229.8
41	Milwaukee	220.1
42	Oklahoma City	215.6
43	Salt Lake City/Ogden, Utah	212.0
44	Akron, Ohio	197.0
45	Bergen/Passaic, N.J.	194.6
46	Tulsa, Okla.	194.2
47	New Orleans	192.9
48	Austin, Tex.	192.7
49	Bridgeport/Stamford/Norwalk/ Danbury, Conn.	188.5
50	Nashville	181.6
TOTAL TOP 50		19,460.3
51	Orlando, Fla.	$ 178.6
52	Richmond/Petersburg, Va.	172.3
53	Hartford/New Britain/Middletown/ Bristol, Conn.	171.8
54	Knoxville, Tenn.	170.8
55	Jacksonville, Fla.	168.0
56	Grand Rapids, Mich.	161.2
57	Dayton/Springfield, Ohio	160.3
58	Beaumont/Port Arthur, Tex.	159.5
59	Baton Rouge, La.	158.5
60	Kansas City, Mo.	158.1
61	Rochester, N.Y.	158.0
62	Johnson City/Kingsport/Bristol, Tenn.	157.2
63	Memphis	155.3
64	Greenville/Spartanburg, S.C.	151.6
65	Santa Rosa/Petaluma, Calif.	151.0
66	Las Vegas	150.5
67	Des Moines, Iowa	150.3
68	San Antonio, Tex.	150.2
69	Providence/Pawtucket/Woonsocket, R.I.	146.9
70	Albany/Schnectady/Troy, N.Y.	139.0
71	Buffalo, N.Y.	138.9
72	Fresno, Calif.	133.7
73	Monmouth/Ocean, N.J.	132.9
74	Mobile, Ala.	131.6
75	Middlesex/Somerset/Hunterdon, N.J.	131.0
76	Bakersfield, Calif.	129.8
77	Reno, Nev.	127.4
78	Eugene/Springfield, Ore.	126.4
79	Wichita, Kan.	125.6
80	Scranton/Wilkes-Barre, Pa.	125.4
81	Lancaster, Pa.	123.6
82	Lake County, Ill.	120.9
83	Little Rock/North Little Rock, Ark.	120.7
84	Spokane, Wash.	119.4
85	Wilmington, Del.	119.3
86	Fort Myers, Fla.	119.2
87	Tacoma, Wash.	118.7
88	Harrisburg/Lebanon/Carlisle, Pa.	117.7
89	Amarillo, Tex.	117.2
90	Peoria, Ill.	116.8
91	Gary/Hammond, Ind.	116.2
92	Allentown/Bethlehem, Pa.	114.7
93	Springfield, Mass.	110.8
94	Lakeland/Winter Haven, Fla.	106.7
95	Salem, Ore.	105.2
96	Charleston, S.C.	104.5
97	Huntington/Ashland, Va.	104.1
98	Davenport, Iowa/Rock Island/Moline, Ill.	103.7
99	West Palm Beach/Boca Raton/ Delray Beach, Fla.	103.3
100	Modesto, Calif.	103.0
TOTAL TOP 100		26,198.0
Per cent of U.S.		50.3%
TOTAL U.S.		52,711.1

Source: Sales & Marketing Management, July 1983; *NHCN* chart

Houston DIY chains running full steam ahead...

HOUSTON—This city of over three million, the state's largest, is catching its breath after almost 12 years of unimpeded, booming growth.

Unemployment here is up, retail sales through October are off about 12%, housing starts, for the first time in eight years, are down, its economy is shaky because of the downturn in the energy industry and its traffic congestion has become legendary.

Despite these problems, the market—which encompasses more than 7,400 square miles reportedly gaining 75 people a day—remains one of the most dynamic and profitable for the home center industry. Houston continues to offer chains and independents almost unlimited expansion possibilities and enormous sales of hardware, lumber and building materials.

So it is not surprising that several chains operating stores here—among them Payless Cashways, 84 Lumber and Handy Dan—will be adding new units in Houston this year. And there is a strong probability that both Home-Pro and Bowater Home Centers will enter the market in 1984 with several warehouse-style home centers that should heat up an already highly competitive market and make Houston one of the major home improvement battlefields.

"Houston's market has fallen off, but compared to the rest of the country it's booming," said Daryl Landsdale, president of W. R. Grace's Central Region which operates 22 Handy Dans here.

Landsdale's comments were echoed by other home center executives whose stores, despite the market's economic downturn, had strong sales in 1983. Many of these officials felt Houston's problems—with the exception of its traffic—were temporary, and that the market would regain the reputation as one of the nation's fastest-growing areas it had established over the past decade.

Between 1970 and 1980, the seven counties comprising Houston's consolidated market area gained 930,000 people, with Harris County—which holds 77% of the area's population—increasing by 667,000 residents.

Excluding the Galveston area (which is now considered part of the total Houston market), Houston had 206,000 housing starts from 1978 to 1982; in Harris County, the total value of all construction rose from $4.2 billion in 1978 to $6.4 billion in 1982, of which $3 billion was for residential construction. Between 1976-1982, Houston led the nation in total housing starts.

From a retail standpont, the market has burgeoned: According to *Sales and Marketing Management's* 1983 Survey of Buying Power, Houston ranks sixth in total retail sales among all markets, eighth in "Effective Buying Income" (i.e., personal income minus taxes and nontax payments) and 20th in median household income. More important for home center stores, Houston is the third-ranking hardware, lumber and building materias market in the country.

And, according to Jay Taylor, director of the Houston Chamber of Commerce's economic development division, the market's per capita income has gone from 76th to 11th among the major metro markets, and the city is third (behind San Francisco and Washington D.C.) in the youthfulness of its populace, with a median age of 27.6 years.

This is not to say, however, that Houston has not had problems. Its unemployment has hovered around 10% for almost a year, stemming largely from the depression in the energy industry upon which much of the city's and state's revenues are derived.

Because of its economic downturn, Houston's population growth has slowed too. In 1981, the area gained about 107,000 people; last year, only about 72,000. With fewer people coming into the market, housing has fallen off as well. Exclusive of Galveston, Houston had 66,970 housing starts in 1982, of which 31,800 were single family units. Last year, the total fell to 58,300, although single family figures were fairly constant at 30,500. In 1984, it is estimated that 46,050 units will be started, of which 28,900 will be single family dwellings.

Taylor and other local officials point out that there is an

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The Houston market at a glance

DEMOGRAPHICS	1977	1982	% change	1987^P	% change
Population (millions)	2.49	3.03	+21.7	3.64	+20.1
Households (thousands)	853.10	1,114.80	+30.7	1,375.70	+23.4
Effective buying income (billions $)	$ 17.43	$ 34.79	+99.6	$ 65.99	+89.7
Average household effective buying income (thousands $)	$ 20.44	$ 31.19	+52.6	$ 47.97	+53.8
Total retail sales (billions $)	$ 11.80	$ 19.66	+66.6	$ 38.85	+97.6
Per household retail sales (thousands $)	$ 13.83	$ 17.64	+27.6	$ 28.24	+60.1
Building materials/hardware sales (millions $)	NA	$ 874.90	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ^{E}—estimate ^{P}—projection NA—Not available

HOUSING STARTS	1981	1982	% change	1983^E	% change	1984^P	% change
Total (thousands)	44.30	70.00	+58.0	58.3	−16.7	46.1	−20.9
Single family (thousands)	27.70	31.80	+14.8	30.5	− 4.1	29.0	− 4.9

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$72.7	$77.2	$83.0

Sources: National Assn. of Realtors, local real estate boards

NHCN charts

HOW
MUCH WOOD
COULD A
WOOD
CHUCK
CHUCK?

. . . while economy takes post-boom breather

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overabundance of multifamily homes and single-family units costing in excess of $150,000 that have become difficult to market. Bill Schadewell, editor of the *Houston Business Journal*, who also conducts a weekly business program on local television, claims there are 38,000 homes that remain unsold on the market.

Industrially, the Houston market has also been overdeveloped. Over each of the past 10 years, the city has added 10% more office space, of which there is now a "surfeit," according to Skip Kasdorf, the Chamber of Commerce's manager of research.

However, while Kasdorf and other local officials were realistic about Houston's difficulties, they were almost equally optimistic about its future. "For the first nine months of 1983, nonresidential contracts were off 39%, but that still equals $1.5 billion. In Houston, we were the last to enter the recession, and we'll be the last ones out, but compared to the rest of the country, we're smelling like a rose."

Most home center operators in the market agreed with Kasdorf that the sheer force of Houston's expansion will propel its growth inexorably, and they expect their stores' sales to follow close behind that growth in 1984, after what turned out to be a very strong 1983.

"Our stores' sales were up about 30% this year, and the last half of the year was carried by our consumer business," said Gary Hester, chief executive officer of the seven-unit Walker-Kurth chain, based here. Payless Cashways' nine Furrow units saw sales jump about 40% in 1983, according to regional vp Roger Weverka. Landsdale of W. R. Grace noted his Handy Dan units were generating sales comparable to the chain's profitable San Antonio stores. And Dwight Sutherland, a partner at Sutherland Lumber, said he was "extremely satisfied with" the performance of his four stores here.

But the competition in the Houston market is so fierce—besides the above mentioned chains, Boise Cascade operates nine retail units, 84 Lumber eight, McCoy's four, Montalbano Lumber two and there is a multiplicity of hardware stores serviced by White's, Ace Hardware, Cotter & Co. and Handy Hardware Wholesaler—that it has become more difficult for home centers to retain their market shares, even as Houston expands geographically.

"It appears that everybody's going to have to share a bit more of the pie, and because there are so many stores here, your store's promotional efforts will just have to be sharper," said Tom Wymore, area manager for 84 Lumber, which plans to open two more stores here in January or February.

Other retailers agreed that the pricing is competitive here, and added that increased advertising was another key to competitive success in Houston. But the cost of advertising in Houston can be prohibitive, and because the area is so large (Sutherland has two stores that are 60 miles apart, for instance), the effectiveness of any one ad medium has to be questioned.

"You have two newspapers down here [The Houston *Chronicle* and The Houston *Post]*, neither of which appears to cover more than 40% of the market," said Weverka of Payless Cashways from his Dallas regional office. "So we use a lot of direct and marriage mailers, and a lot of television to zero in on specific customers."

Handy Dan's Landsdale said his chain has already upped its ad budget, and he anticipates it will have to do so again in 1984 to meet with expanding competition. "There's already a whole lot of stores here, and I'm sure some of the warehouse guys will have stores in Houston soon, but we're not going to give an inch."

Most of the dealers contacted by *NHCN* were confident that Houston's economic recovery would take place in 1984, and that their stores would greatly benefit from it. Hester of Walker Kurth went so far as to say that, because he expects the housing market to bounce back strongly, 70% of his chain's volume could come from contractors this year, compared with 60% in 1984.

Others thought that Houston's growth would mean that their chain's expansion plans would continue to move ahead, mostly in the suburbs. However, two factors in the Houston market are making store expansion troublesome lately: the cost of land and the traffic.

Houston, like Dallas, charges its citizens a 1% transit tax, and has been trying to improve its mass transit system to take some pressure off its highways, which resemble parking lots during rush "hours" that are becoming longer and longer. But, according to Schadewell of the *Houston Business Journal*, little progress is being made. "The biggest obstacle to Houston's growth is its transportation system. The whole MTA system is a joke; all they do is perform study after study and nothing gets done. I haven't seen much action out of the city or the state."

Payless' Weverka noted that, because the traffic is so bad, it is essential to have as many units in the market as possible for consumer accessibility. "I don't think consumers travel more than five miles to shop our kinds of stores because they don't want to fight the traffic," he said. "For anybody to be dominant here, you have to have a sizable number of units." Payless plans to open three more stores in Houston this year, bringing its total to 12, and expanding the capacity of its warehouse here. Weverka said that it could "comfortably" fit six to 10 more stores in the market.

Handy Dan's Landsdale agreed that "to service the market you need a lot of stores in Houston because of the traffic." He also posed a question about how this problem may affect warehouse stores coming into the market, which would need to draw on a large customer base and generate huge sales to be profitable.

"I think when the warehouse people come in, they are going to have some problems because the traffic buildup, and people's resistence to driving in it, may restrict the number of customers these stores are able to draw."

Ralph Dillon, president of Bowater Home Centers, agreed that the traffic situation in Houston does not seem to be getting any better, and that it presented some problems for a chain like his. But he also felt that it was wishful thinking on the part of other chains to say that traffic would be a factor blocking his or any other warehouse's entry in the market.

Dillon also noted that it was unlikely that any warehouse operation would come into Houston "with only one store," agreeing with other chain officials that the market is simply too big for a single unit to handle.

He added that there were some "minuses" in operating here: advertising is expensive, real estate is costly, "many of the old Woolcos that we've looked at are not in great locations," and the market, in general, "has not exactly been robust." He also thought that, in certain areas, Houston was "overstored."

However, Dillon, along with most other home center executives, thought that Houston was one of *the* places to be for a company operating a home center chain.

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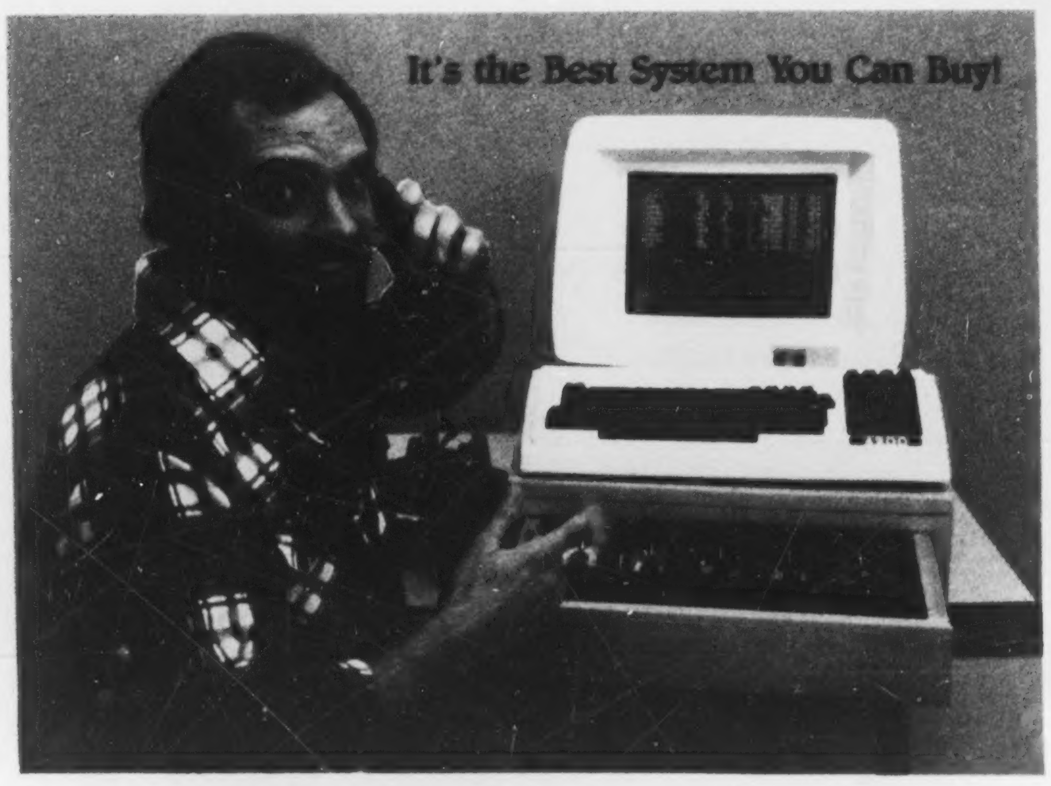
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Chains alter strategy to attain penetration of Tulsa DIY market

Housing starts in Tulsa, which by November were already 25% ahead of the 1982 total, support predictions of dramatic growth in the area's retail sales potential. NHCN photo

By David Morgan
NHCN field editor

TULSA, Okla.—By all indications, this southwestern community of 737,000 is a market about to happen for the retail building materials industry.

Population has grown by a third in the past decade, thanks mainly to an influx of skilled labor from the Northeast and upper Midwest. Single-family housing starts, as of Nov. 1, were running 25% ahead of last year's total, while growth in aerospace technology and renewed stability in the oil industry have led to forecasts of substantial gains both in retail sales potential and disposable household income over the next five years.

The local home center industry has not kept pace with these changes, however. For that reason, retailers have begun speculating that Tulsa may soon be the site of new and intense competition.

The area's first new home center store in five years appeared Sept. 1, when Sutherland Lumber opened a 58,000-sq.-ft. retail warehouse under the name "Sutherland Warehouse Plus." Located southeast of downtown, near the city's fastest growing section, the warehouse store lies within two miles of a Payless Cashways, two Handy Dans and several independents. The Sutherland organization itself has had no comment on the performance of the warehouse store. However, competitors claim the unit has not greatly affected their businesses.

In the meantime, other players on the local home center stage are moving to further their penetration into the do-it-yourself market. Pay 'N Pak, with two stores on the city's west side, is in the midst of a remerchandising program that calls for the addition of lumber and building materials, and 8-ft. warehouse racks to its stores. Boise Cascade has also stepped up its retail pitch, remodeling the store front of its only unit here, and maximizing its use of tabloid advertisements.

"Here in Tulsa, it's become a lot more competitive than it was a few years ago," commented Payless Cashways manager Max Nelson. "I see no reason for a slowdown—we're still in somewhat of a recession because of oil, but things will be rolling again by mid-84."

That could, according to some retailers, make Tulsa a prospective market for retail warehouse companies like Bowater and The Home Depot, or for Pay 'N Pak to introduce its new warehouse format into the area. Bowater president Ralph Dillon, for one, denied any interest in the Tulsa area on the part of his company at the moment. Still, many view Tulsa as a town with strong retail potential.

In 1980, when most of the United States was entering the depths of recession, Tulsa's oil exploration and aerospace industries enabled it to maintain one of the lowest unemployment rates in the country, estimated at 3.1%. The area's major employers, including McDonnel/Douglas, Rockwell International and Telex, began running want ads in northeastern newspapers after finding themselves in need of more skilled labor than was available in the community.

Things have changed somewhat since then. Price destabilization in the oil industry is blamed as the main culprit behind an unemployment rate that stood at 8.9% in October. Meanwhile, average family income in the Tulsa area was estimated at $17,030 by the 1980 Census.

By the end of the third quarter of this year, single-family housing starts were estimated at 1,476, compared to the 1,182 recorded for all of last year. Building permits, meanwhile, rose 6% to 6,340. The third quarter level was approx-

(Continued on page 34)

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Chains alter strategy in Tulsa DIY market

The Tulsa market at a glance

DEMOGRAPHICS	1977	1982	% change	1987^P	% change
Population (millions)	0.61	0.70	+ 14.8	0.79	+12.9
Households (thousands)	224.00	268.70	+ 20.0	305.70	+13.8
Effective buying income (billions $)	$ 3.60	$ 7.24	+101.1	$ 13.20	+82.3
Average household effective buying income (thousands $)	$ 16.06	$ 26.94	+ 67.7	$ 43.13	+60.1
Total retail sales (billions $)	$ 2.31	$ 3.95	+ 71.0	$ 7.51	+90.1
Per household retail sales (thousands $)	$ 10.34	$ 14.69	+ 42.1	$ 24.57	+67.3
Building materials/hardware sales (millions $)	NA	$194.24	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ^{E}—estimate ^{P}—projection NA—Not available

HOUSING STARTS	1981	1982	% change	1983^E	% change	1984^P	% change
Total (thousands)	3.73	7.77	+108.0	6.09	−21.6	9.03	+48.3
Single family (thousands)	2.18	3.14	+ 44.0	4.85	+54.5	3.97	−18.1

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$68.7	$71.3	$73.3

Sources: National Assn. of Realtors, local real estate boards

NHCN charts

(Continued from page 32)

imately 164% higher than the 2,400 building permits issued when construction dipped in 1981.

Sales & Marketing Management's 1983 Survey of Buying Power paints a glowing picture of Tulsa's future retail vitality.

According to the survey, which was based on 1982 statistics, the population of the Tulsa metropolitan area is expected to increase 13% by 1987. Both retail sales and disposable household income, moreover, are projected to climb more than 80%.

S&MM reported that effective buying income per household will increase from $26,941 to $43,126 in Tulsa between 1982 and 1987. Defined as personal income, less personal tax and nontax payments, total effective buying income is expected to reach $13.2 billion by the end of period.

On the other hand, average retail sales per household is expected to rise from $14,690 to $24,575, for an overall increase of 90%. Total retail sales for the area are projected to reach $7.5 billion by 1987. In 1983, Tulsa residents spent an estimated $3.9 billion on retail purchases.

Luring customers, however, has become an increasingly competitive proposition.

Sutherland, Handy Dan and Boise Cascade began offering 5% off on items shown to be lower in price by competing advertisements last spring, in an attempt to foster low-price images. Pay 'N Pak already had implemented such a program some time before.

During the year's third quarter, Pay 'N Pak remerchandised its store in southwestern Tulsa by implementing a corporate program designed to increase sku's by one-third and raise gondolas from 48 to 84 in. The chain's second unit, a 20,000-sq.-ft. store on the city's north side, was scheduled to undergo the same treatment in December.

Scott Marcum, manager of the northern Pay 'N Pak, said he expected the changes to affect sales dramatically. "We'll be adding building materials and bringing them in on the floor, and basically going deeper in plumbing, electricals and paint," the manager said. "We've always had the accessories to building materials, but never the building materials themselves.

"I think it will mean a lot to this store in particular, mainly because we're the only chain store in north Tulsa," he said.

Pay 'N Pak, in conjunction with its remerchandising program, also has begun advertising on television in Tulsa, thereby providing support for quarterly tabloid advertisements.

Martin Switters, store manager at Boise Cascade, said his operation has increased its use of tabloids from two to 10 per year, while dropping its number of ROP advertisements from 25 to 16. According to Switters, the shift to tabloids has enabled the store to present Tulsa customers with a broader selection of sales items, particularly in the categories of plumbing, electrical and paint.

With a store of only 12,000 sq. ft., Switters said the company this year also moved to place commodity items and building materials on the sales floor. Products now found in the unit include sheet goods and prehung doors. Dimensional lumber remains in a 50,000-sq.-ft. warehouse storeroom to the rear of the store.

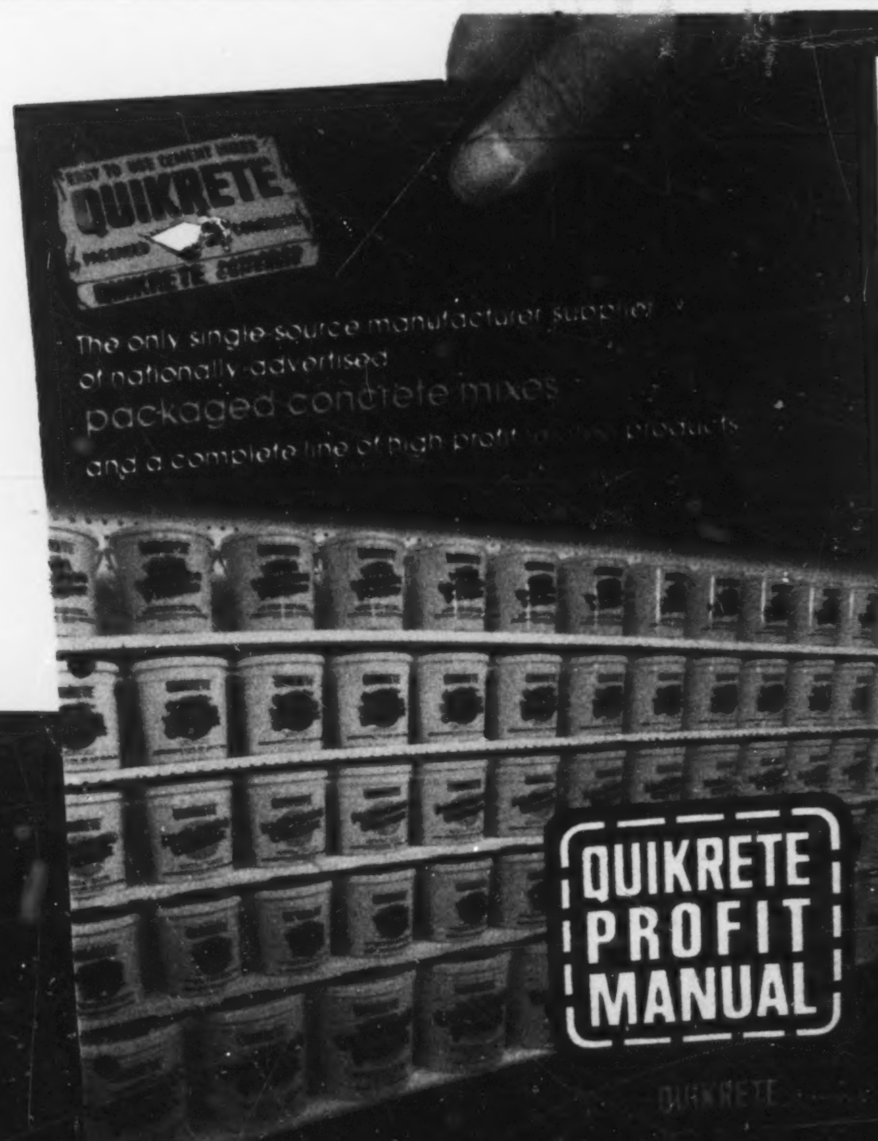
Like Pay 'N Pak, Boise Cascade supported changes in its merchandising mix by adopting television as an advertising medium.

Switters said he expects Boise Cascade's Tulsa operation to generate $20 million in lumber and building material sales, 85% of which will be to contractors. Between a third and a half of the operation's consumer sales, he said, are attributed to contractor referrals.

Max Nelson said the largest development to occur last year in his Payless Cashways store was a move toward the high end on kitchen and bath fixtures. "In vanities, for instance, we used to sell 24-in. models for $70—that was the most popular item in the line," he explained. "Now, the biggest sellers are still 24-in. models, but they're going for up to $200."

Upswing noted

Nelson attributed the upswing to demographic changes that have taken place in the southeastern sector of the Tulsa market over the past three years. "Homes here are ranging from $50,000 to $800,000 in price," he said. "Across town, they're going for between $20,000 and $70,000. Our store over there is still selling the low- to medium-priced vanities."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NHCN's 1984 METRO MARKET OUTLOOK

St. Pete DIY market: Big and getting bigger

ST. PETERSBURG, Fla.—Despite the opening of five Scotty's, two Home Depots and several independents in the region surrounding this city last year, home center operators are quick to say there's room for more.

"The future will call for more locations," said Dennis Stultz, executive vp of Scotty's.

The Home Depot, which opened its biggest store to date last spring in Tampa, followed by a Clearwater unit in November, plans to open a third this year in St. Petersburg.

"There is room for more large home centers," said Greg Cunningham, president of Ace Hardware Stores, a local chain founded 24 years ago, which opened its fifth store in St. Petersburg last fall. "And there are pockets open for smaller hardware stores to open, such as Palm Harbor," a town just north of the city.

Jim Reber, general manager of Littrell Lumber, agreed the market will support more stores. "There are a lot of stores in the area now, but they all seem busy," he said. Littrell, an independent operating in the city since 1922, may open a second location north of downtown this year.

By the end of last year, the rush to meet the growing needs of the area had produced a home center profile that included 17 Scotty's, nine Lindsley's, six 84 Lumbers, two Home Depots and a host of independents.

"The competition is fierce in this area," acknowledged Dean Friedley, assistant manager of the Lindsley store in Seminole, which has an 80% consumer trade. "It's gotten to the point that the store that comes out with the 'hot ad' each week is the one that gets the business."

Publix, Cash 'n Carry, Albertson's and other area grocery stores have further intensified the market by selling hardware. "So much competition has entered the food goods area that grocery stores need hardware and clothing departments as profit centers," said Cunningham of Ace. He added the three grocery chains mentioned above have all recently expanded their stores to sell additional hardware.

Despite the plethora of hardware and lumber outlets, observers point to a growing population base working for a growing number of high technology businesses as the primary impetus for continued interest in building new stores.

The population in the St. Petersburg-Tampa-Clearwater area increased by 10% from 1977 to 1982, according to *Sales and Marketing Management* 1983 Survey of Buying Power. Consumers spent $342 million on building materials and hardware store purchases in 1982, a figure that makes the area the 23rd most active of 314 metropolitan regions surveyed.

Furthermore, the effective buying income of the population is expected to increase by over 84% by 1987, a figure that compares with a roughly 62% increase since 1977. By 1987, the amount of money each household spends on retail sales is expected to increase by 60%.

"For the second year in a row, the Conference of State Manufacturers Association picked the area as having the most attractive business climate," noted Stultz of Scotty's. He said positive elements of the climate included low rates, availability of property and a low cost of living.

"In 1983 we absorbed 2 million sq. ft. of industrial space," said Bill Davis, president of the Committee of 100 for Pinellas County, where St. Petersburg is located. "This is roughly double our ordinary rate of absorption." During the next two years, Davis expects the remaining space available for industry—about 4,000 acres—to be fully developed.

The area's largest employer is Honeywell Aerospace. Others include General Electric, Sperry Microwave and Silor Optical. Of the total employment attributed to the region's manufacturing sector, about 65% is in high technology work, according to the Pinellas County Industry Council.

"In addition to new people coming into the area to work at the new companies, we have a lot of elderly people here who have their retirement income to spend no matter what happens to industry," pointed out Reber of Littrell Lumber. He added that spending by both groups has fueled additional construction of commercial properties.

The Tampa/St. Petersburg market at a glance

DEMOGRAPHICS	1977	1982*	% change	1987^{P}*	% change
Population (millions)	1.16	1.74	+ 50.0	1.98	+13.8
Households (thousands)	591.20	726.70	+ 22.9	837.90	+15.3
Effective buying income (billions $)	$ 7.93	$ 15.97	+101.4	$ 29.47	+84.5
Average household effective buying income (thousands $)	$ 13.41	$ 21.97	+ 63.8	$ 35.18	+60.1
Total retail sales (billions $)	$ 5.42	$ 8.76	+ 61.6	$ 16.18	+84.7
Per household retail sales (thousands $)	$ 9.17	$ 12.06	+ 31.5	$ 19.31	+60.1
Building materials/hardware sales (millions $)	NA	$342.16	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ^{E}—estimate ^{P}—projection NA—Not available *Includes Clearwater

HOUSING STARTS	1981	1982	% change	1983^{E}	% change	1984^{P}	% change
Total (thousands)	17.55	13.67	−22.1	23.05	+68.6	21.80	− 5.4
Single family (thousands)	6.99	6.88	− 1.6	12.33	+79.2	10.80	−12.4

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$51.9	$53.9	$58.5

Sources: National Assn. of Realtors, local real estate boards

NHCN charts

The roots of the current increase in population—and concurrently in retail sales—go back to decisions made by the cities to modify their traditional economic structures.

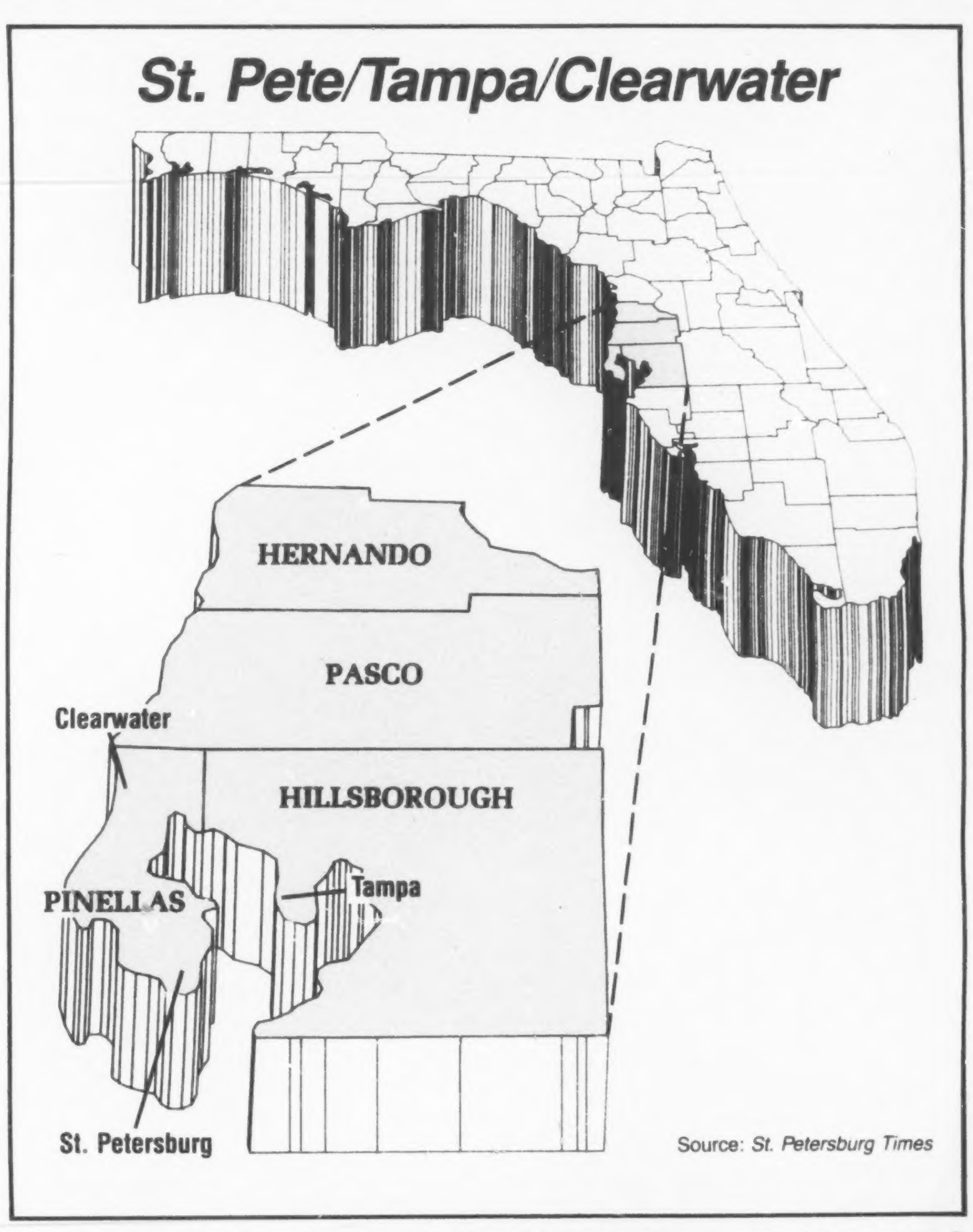
"In the 1970's, the St. Petersburg area decided it needed to attract light industry to broaden its tax base," said Toni Farrell, research librarian for the Tampa Bay Regional Planning Council. Previously, the city had received most of its income from a combination of the retired elderly and tourism.

"At the same time, Tampa decided to take steps to transform itself from a dark industrial city," said Farrell.

The result has been an influx of pharmaceutical and other light industrial firms to St. Petersburg. Tampa, traditionally a heavy industrial town, built a convention center, downtown mall, Hyatt Hotel and new roadways that not only brightened its image but also attracted new employers.

While a host of new stores have been opened to serve the growing population, most home center operators are watching the progress of The Home Depot, and wondering how the local market will react to the con-

(Continued on page 37)



Source: *St. Petersburg Times*

Home centers are attracted to the St. Petersburg area because of its growing population and strong economy.

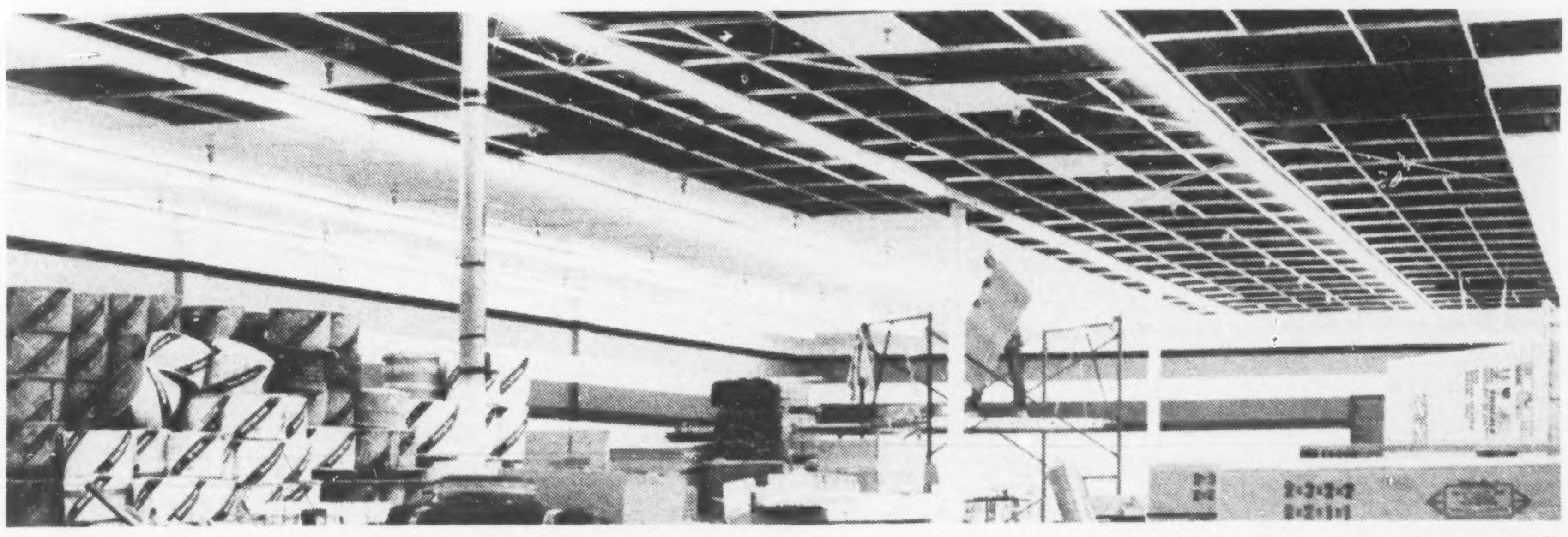
Warehouse invasion sharpens Indy pricing strategies

INDIANAPOLIS—The contest for home improvement sales is reaching a flash point in this northern industrial city of 1.2 million people.

The opening of two warehouse stores in late November and the promise of four more by spring, in fact, has retailers bracing for a wave of price-cutting and promotions.

First came Sutherlands, which debuted a 101,000-sq.-ft. retail warehouse under the name "HouseMart" on Thanksgiving Eve, featuring salesclerks on roller skates and twice the number of sku's usually offered by the chain. Two days later, Central Hardware reopened a 55,000-sq.-ft. store with 8-ft. gondolas and a sharper focus on standard home improvement lines such as hardware, plumbing and electricals.

Meanwhile, store officials at three other Central Hardware locations were busily renovating merchandise storerooms into additional floor space in preparation for their respective grand reopenings. These renovations, along with the construction of a new store, will give the Missouri-based retailer five warehouse stores in Indianapolis within the next few months.



A Central Hardware unit in Indianapolis is renovating of a former merchandise storeroom into retail selling space. Such renovations, along with construction of a new facility, will give the Missouri retailer five warehouse stores by spring.

NHCN photo

Reaction to the warehouse store openings and their accompanying product offers has consisted mainly of stronger advertising and sharper pricing on the part of competing home centers. The area overall includes five Lowe's stores, four Furrows (Payless Cashways), four 84 Lumbers, three Carter Lumbers, one Wickes and a number of independents.

Payless Cashways also is in the process of adding between 3,000 and 5,000 sq. ft. to each of its units, as part of a corporate plan to increase the amount of merchandise displayed in the store. In addition, the chain was expected to open service centers in its four local stores during the first week of December, thereby offering customers services like window glazing, cut countertops, door planing and blade sharpening.

"It's a lot more competitive than it was five years ago, when there were only two Wickes, two Lowe's and three Central Hardwares," said one store manager who asked not to be identified. "But I don't know why anybody'd come to Indianapolis."

Larry Morrissey, vp of Payless' Indianapolis region, said the market has shown steady growth since unemployment peaked at 18% two years ago.

In fact, the market saw a number of healthy signs appear in its economy in 1983. Unemployment fell from 11% in January to 8.2% in September as the area's largest employers—General Motors, pharmaceutical manufacturer Eli Lilly & Co. and RCA—continued to regain vitality. Single family housing starts were up 95% in the first nine months of the year, reaching a total of 1,146. For the entire year, the city may approach the 1,800 single-family homes built during the housing boom of 1979.

"Over the last 24 months, we've seen consumers look much more for quality," Morrissey added. "It seems as though they're going for the extra $2 or $3 in price if it will increase the value received for

(Continued on page 37)

Warehouse invasion sharpens Indy prices

(Continued from page 36)

the money spent."

Sales & Marketing Management's Survey of Buying Power has forecast a 72% increase in effective buying income for residents of the Indianapolis metropolitan area by 1987, though population is not expected to rise more than 3%.

According to *S&MM*, effective buying income per household will increase from $25,136 to $42,134 in Indianapolis between 1982 and 1987. Defined as personal income less personal tax and nontax payments, total effective buying income for the area is expected to reach $18.8 billion by the end of the forecast period.

The survey showed that in 1982, 64% of the area's 450,000 households had effective buying incomes of between $10,000 and $35,000. Some 35% of area households earned $20,000 to $35,000.

S&MM also predicted a 68% increase in retail sales for the Indianapolis area, with purchases totaling $10.6 billion in 1987. Retail sales per household are expected to rise from $14,469 to $23,732 during the five-year period.

Projections on disposable income and retail sales should hearten officials at Sutherlands and Central Hardware, whose new warehouse stores must generate a high volume of sales to maintain advertised low price advantages.

Members of the Sutherland organization have not been willing to comment on their new HouseMart store, which is located in a former Woolco on the city's southeastern side. The chain's original Indianapolis store, located southwest of downtown, also has been changed to a HouseMart, if in name only. While the store carried opening day warehouse sales items, apparently there are no known plans to convert the original unit to the warehouse format.

Meanwhile, Central hardware, the 30-store St. Louis-based chain, has spent the past three months refining its mix to include only home improvement items.

Sporting goods and home appliances have been dropped completely from the product mix at the chain's store in north Indianapolis, the first to complete the remerchandising process. The three remaining Indy locations had simply moved nonhome improvement items onto warehouse racks while awaiting completed renovations.

Central Hardware also implemented several price and service offers to back up its new warehouse store. Among the offers were monthly payment plans for purchases in excess of $300, as well as 10% off all purchases for senior citizens on Tuesday of each week.

Central implemented an offer of 5% off on items shown to be less expensive in competing advertisements. The company also maintains a service center called "Mr. Tinker."

The Indianapolis market at a glance

DEMOGRAPHICS	1977	1982	% change	1987^P	% change
Population (millions)	1.16	1.18	+ 1.7	1.21	+ 2.5
Households (thousands)	394.70	434.60	+10.1	445.10	+ 2.4
Effective buying income (billions $)	$ 7.42	$ 10.92	+47.2	$ 18.75	+71.7
Average household effective buying income (thousands $)	$ 18.80	$ 25.14	+33.7	$ 42.14	+67.6
Total retail sales (billions $)	$ 4.55	$ 6.29	+38.2	$ 10.56	+67.9
Per household retail sales (thousands $)	$ 11.53	$ 14.47	+25.5	$ 23.73	+64.0
Building materials/hardware sales (millions $)	NA	$269.10	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ^{E}—estimate ^{P}—projection NA—Not available

HOUSING STARTS	1981	1982	% change	1983^E	% change	1984^P	% change
Total (thousands)	4.86	3.20	−34.2	5.8	+ 81.3	5.8	0.0
Single family (thousands)	1.56	1.40	−10.3	3.1	+121.0	3.0	−3.2

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$49.7	$50.6	$53.7

Sources: National Assn. of Realtors, local real estate boards

NHCN charts

St. Petersburg

(Continued from page 36)

cept of warehouse retailing.

"The next Home Depot is supposed to open about three miles from us, and about three blocks from one of Scotty's most successful stores," said Greg Cunningham, whose local Ace Hardware chain did $4.5 million worth of business last year, about 90% of which represented consumer trade. "Since the previous Home Depot outlets opened last year, there has been a lot of aggressive advertising on the part of that company and Scotty's," reported Cunningham.

In contrast, said Cunningham, Lindsley has continued to maintain a low key advertising strategy. However, the chain has taken steps to increase the heights of its gondolas and make other internal merchandising changes since the opening of The Home Depot, noted Cunningham.

"Over a year and a half ago, when Lindsley started getting competition from Home Depot in Miami, they started lowering the heights of their gondolas and stocking more packaged goods to differentiate themselves, even in this region," said Cunningham. "Now that Home Depot has entered this market, they seem to be going back to trying to develop a warehouse look."

Cunningham is not convinced Home Depot can do as well in the St. Petersburg area as it has elsewhere. "Our population is older, more old fashioned and it's tough for them to get used to something new," he said.

"Their offer to sell merchandise at 5% off competitor's prices can only hurt them," said Cunningham. "We publish regular flyers, each of which has five coupons on the front good for purchase of loss leaders. If they try to meet all those prices they are going to lose money."

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NHCN's 1984 METRO MARKET OUTLOOK

Chains adopt Albuquerque's laid back attitude

ALBUQUERQUE, N.M.—This market, in the words of one local official, is an enigma.

Despite its steady, if undramatic, population growth, its pleasurable climate, stable economy and potential for expansion, Albuquerque has not had the same kind of booming growth other Sunbelt cities have had and misapprehensions about the city continue to persist even among some of its citizens.

And as a home center market, it is considered fairly competitive by retailers, but one whose expectations for growth are leavened by the constraints of its geography and its relative ability to draw new consumers to the area.

Albuquerque may be in a state whose state bird is the swift roadrunner, but its future expansion will probably reflect New Mexico's more laid back motto "Crescit Eundo," which, translated from the Latin, means "it grows as it goes."

That 36% of its estimated population of 460,000 is Hispanic does little to alter the impression, in some people's minds, that Albuquerque is actually in Mexico, even though New Mexico has been part of the Union since 1912. It appears Albuquerque has always had this kind of trouble establishing its own identity.

It is the third largest art market in the United States, behind New York and Los Angeles, and it supports three ballet companies. But Albuquerque still has a reputation, in some quarters, as being somewhat of a frontier border town.

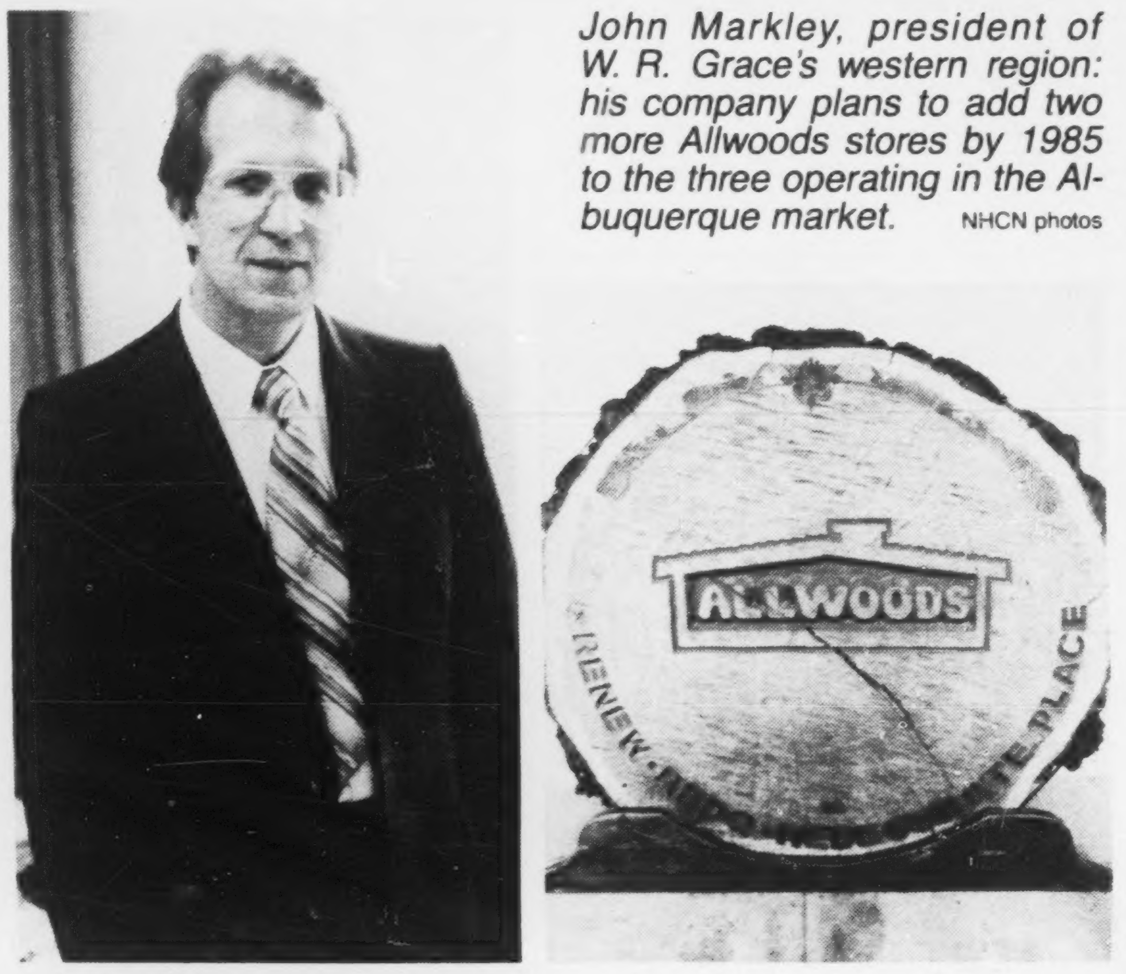
At 2,400 ft. in altitude, it is 200 ft. higher in elevation than Denver, Colo., and its seasons change regularly. But many people visiting or moving to Albuquerque expect the weather to be hot and arid, like Tucson, Ariz.

And while its West Mesa area stretches about 75 miles west of the city and offers a vast expanse in which to grow, Albuquerque is not generally viewed as a market where people will flock from other parts of the country. Over the past decade, it has grown at a fairly conservative 3% annually, and its population has increased 38% from 333,266 in 1970.

The market is highly dependent on the Government for its employment, with more than 7,200 people working for the Sandia Laboratories, which is contracted with the Dept. of Energy. In addition, the Bureau of Indian Affairs, Kirtland Air Force Base and the University of New Mexico also employ a good portion of Albuquerque's work force.

Other private businesses have also begun to move into the market of late, or at least have proposed to do so, including INTEL, Sperry, the Ethicon division of Johnson & Johnson, Motorola and Levi-Strauss (which has two plants here).

"People are moving here because it is still a reasonably priced place to live, we have 350 days of sunshine and we're finally starting to get some industry moving here," said Carl Rodolph, the city's director of municipal development.



John Markley, president of W. R. Grace's western region: his company plans to add two more Allwoods stores by 1985 to the three operating in the Albuquerque market. NHCN photos

With more people moving into the market, Albuquerque's housing stock appears to be growing, too. According to the city's Home Builders Assn., 1,964 single family unit permits were issued through October, a 148% increase over last year. These permits are worth $111.4 million in potential construction, a 165% increase. (Multi-family permits, in fact, were down 11% to 738, although investment was up 21% to $13.6 million.)

Jim Covell, executive vp for Albuquerque's Industrial Development Service, said that more than 50% of this single family construction would take place on the west side of the city, with substantial development occurring in the Rio Rancho community in the northwest.

(He explained that because the city has the Sandia Mountains to the east, an Indian reservation to the north and the airport and Air Force base to the south, "we'll be expanding to the west almost exclusively until we hit the Navajo Reservation about 70 miles away.")

Covell and other city officials conceded, though, that this growth pattern has yet to significantly affect either the market's relatively high unemployment rate, or its retail sales.

"One of the problems we've had is that our market is still very dependent on the minerals and energy industries, which have been down, and we've got a lot of young, unemployed people who normally would be working in those jobs," said Mayor Harry Kinney. Preliminary unemployment figures for September were 8.2%, compared with an 8.1% annual average in 1982.

With this unemployment, Albuquerque has stalled as a retail market, ranking only 92nd in total retail sales among all metropolitan markets with $2.3 billion, and 103rd in retail sales of lumber, building materials and hardware with $99 million, according to data from the *Sales & Marketing Management* 1983 Survey of Buying Power.

However, when one considers that Albuquerque ranks just 97th overall in total population among all markets, its growth rate appears to be more in line with its size. And, according to home center retailers here, Albuquerque is viewed as a market in which future expansion will eventually take place. It is a market, they say, on the verge of happening, although no one is certain when that is going to be.

"We already have the land, and we're ready to build two more stores here, but why do it if the market isn't ready?" asked John Markley, president of W. R. Grace's Western region in City of Commerce, Calif., which operates three Allwoods stores here. Markley said the company had planned to open a fourth unit this year, but has put those plans on hold until 1985, when the market is expected to be "more robust."

(Continued on page 39)

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CPSHA

Albuquerque spawns 'laid back' strategies

(Continued from page 38)

But that, in fact, could be happening already, as some home centers have seen remarkable sales increases in this market this year. For instance, two years ago, 84 Lumber was seriously considering shutting down its store in Albuquerque because sales were so bad. Now, according to store manager Doug Doonan, "we've missed only one monthly quota this year, and that's a lot better than most people expected."

84 Lumber operates a 20,000-sq.-ft. unit here, which gets about 75% of its sales from retail transactions, a considerably higher percentage than the 60% average for the chain as a whole.

Baldridge Lumber operates two retail yards here, and has seen its sales jump 33% through November. Over the past year, its two stores—a 5,000- and 12,000-sq.-ft. unit carrying 8,000 and 25,000 sku's respectively—have been "completely remerchandised," according to company president Joseph Harley, to attract a greater number of DIY customers.

'They [Payless Cashways] have been here since 1962, and have developed a reputation like Sears and Montgomery Ward in Albuquerque.'

Felix Sanchez,
president,
Hacienda Home Centers

Harley added that the housing market in Albuquerque has picked up lately, but he wasn't anticipating an enormous increase in sales because of it. "Albuquerque as a city has just under 350,000 people, and doesn't have the suburban growth that Houston or Dallas does. But our business has been good, and the area is growing at a more controlled rate."

This level of expansion, though, has done little to dampen the competitive spirit among several of the retailers here. For example, 84 Lumber, according to Doonan, has increased its advertising to stay competitive in the market, as has Hacienda Home Centers, a five-unit chain here, whose sales were up 8% at the end of its fiscal year on Oct. 31.

Felix Sanchez, Hacienda's president, said that with Allwoods, Sutherland Lumber and Furrow Building Materials in the market, prices need to be competitive at all times. He, along with other dealers in Albuquerque, pointed specifically to Furrow's (the name under which Payless Cashways operates here) as being the stiffest competition.

"They have been here since 1962, and have developed a reputation like Sears and Montgomery Ward in Albuquerque," said Sanchez.

Markley of W. R. Grace noted that with the exception of 84 Lumber "everybody has been here a long time." (Baldridge opened its first store in 1881; Allwoods being a bit more contemporary with its first unit of 1973 vintage.)

As for competition, Markley said that "it doesn't make that much difference how many stores are in the market as much as who they are. Payless is a very consistent and competitive company in all its markets, as are we. In fact, when a market is smaller, and income levels are lower, it tends to be even more competitive than most."

Steve Hulette, manager for one of Payless' two Furrow's units here, said his store's sales were up more than 40% this year, with 40% of his total volume coming from blue collar workers, and about 25% from "tradesmen."

"We're in a fairly strong position here, but I don't think we've tapped the market completely," he said. "We're still experiencing a lot of growth in the eastern side of town, and with the west being the area where the bulk of new home construction will take place, we should be able to take advantage of that as well, and eventually move a few more stores in."

Also illustrating the market's untapped potential for low-margin, high-volume operators was the announcement in December that the Price Co., operator of 14 cash-and-carry wholesale warehouses in California and Arizona, has entered into escrow to purchase property in Albuquerque. Company officials said a Price Club unit will open here this year.

The Albuquerque market at a glance

DEMOGRAPHICS	1977	1982	% change	1987ᴾ	% change
Population (millions)	0.41	0.45	+ 9.8	0.50	+11.1
Households (thousands)	141.60	169.20	+19.5	192.70	+13.9
Effective buying income (billions $)	$ 2.19	$ 3.89	+77.6	$ 6.77	+74.0
Average household effective buying income (thousands $)	$ 15.44	$ 23.00	+49.0	$ 35.11	+52.7
Total retail sales (billions $)	$ 1.37	$ 2.35	+71.5	$ 4.03	+71.5
Per household retail sales (thousands $)	$ 9.64	$ 13.87	+43.9	$ 20.90	+50.9
Building materials/hardware sales (millions $)	NA	$ 99.70	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ᴱ—estimate ᴾ—projection NA—Not available

HOUSING STARTS	1981	1982	% change	1983ᴱ	% change	1984ᴾ	% change
Total (thousands)	1.40	1.70	+21.4	2.6	+ 52.9	2.4	− 7.7
Single family (thousands)	1.19	1.00	−16.0	2.3	+130.0	2.0	−13.0

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$66.8	$74.3	$78.1

Sources: National Assn. of Realtors, local real estate boards

NHCN charts

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NHCN's 1984 METRO MARKET OUTLOOK

Tobacco City cultivates crop of hi-tech firms

RALEIGH, N.C.—Three decades ago, when this city began plotting the development of a hi-tech industrial park, it was taking the first steps toward freeing its economy from dependence on the tobacco crop. In the process, though, Raleigh officials laid the groundwork for a thriving market for retail sales—especially for home center operators.

Today, the collection of hi-tech firms in the 6,000 acre Research Triangle Park, located midway between this city and Durham, has helped boost building materials and hardware sales to nearly $100 million annually in the Raleigh-Durham market, according to *Sales and Marketing Management*'s 1983 Survey of Buying Power.

"There's no doubt the park has accounted for the increase in business," said Paul Casey, secretary and treasurer of Carolina Builders, an independent that has been operating in Raleigh since 1922. "Because of the park, our volume has doubled [since the previous year] to $70 million in 1983." Carolina Builders operates four other outlets, all of which have been built in the past 10 years.

"The manufacturing and industrial base here are very strong financially," said Richard Griffin, vp of corporate retail sales for Lowe's Cos. "We believe it will remain very stable. The only reason it won't see exceptional growth is because it is already very good."

Lowe's, with five stores in the area, dominates the Raleigh home center scene. Moore's has two stores, and Wickes and 84 Lumber each have one. Additionally, over a dozen independents are active in the area.

Not surprisingly the same healthy local economy that helped boost the retail sales of these stores has also attracted competition. Hechinger opened a 60,000-sq.-ft. store on Oct. 1 of last year next door to the Lowe's outlet in Durham. The company is also looking for a second site, this time in Raleigh, according to Sally Courtney, vp and general merchandise manager.

"About a half dozen new stores have opened within the last year in the area of Durham around my store," said R. N. Barringer, president of West Durham Lumber, another old-time, family-run independent which has operated at the same site for 58 years. Despite increasing competition offered by the new independent stores, Barringer points to the growing regional population as the primary reason why his business, which is 30% consumer, grew from $5.6 million in 1982 to $7 million in 1983.

Economic statistics for the region show why retailers have a strong interest in the area. While the population of the Raleigh-Durham SMSA increased by about 20% between 1977 and 1982, the total retail sales for the area increased by over 68% for the same period. According to *Sales and Marketing Management*, a population of 590,300 in 1982 spent $2.7 billion in retail trade that same year. Each household spent $12,212 on retail purchases that year, a 33% increase over 1977, according to the same source.

Further, total retail sales are expected to increase by close to 80% by 1987, and average household effective buying income by 65%, even though population is expected to increase by only 9.1% for the same period.

Unemployment, which currently stands at a low 4%, never exceeded 5% during the recent recession, according to the Triangle J Council of Governments, an association based at Research Triangle Park. The council also noted that the SMSA has enjoyed the lowest rate of unemployment in North Carolina for the past several years.

Moreover, the Raleigh-Durham area stands high compared with other Standard Metropolitan Statistical Areas (SMSA) surveyed in 1983 by *Sales and Marketing Management*. Of 314 such SMSA's, Raleigh-Durham ranked 82nd in total retail sales, and 105th in building materials and hardware store sales. The area ranked 80th in effective buying income and 166th in median household effective buying income.

"During 1983, we had nine announcements of new companies moving into Durham County," said Jim Camp, economic director of the Durham Chamber of Commerce. "The combination of new firms and expansions of existing firms translates into 4,000 new jobs," which, noted Camp, is a considerable boost for a county with 96,250 workforce.

While Camp forecasted further expansion in 1984, he did not expect it to proceed at the same "torrid pace" as that of 1983.

Home center operators in general echo Camp's sentiments that the future holds steady if somewhat more modest growth for the region, and that Raleigh holds more potential than Durham.

"The Raleigh store does substantially better than what the average Lowe's store will do," said Griffin, noting the store's 12,000-sq.-ft. showroom approximates the average Lowe's facility.

The Raleigh/Durham market at a glance

DEMOGRAPHICS	1977	1982	% change	1987^P	% change
Population (millions)	0.49	0.59	+20.4	0.64	+ 8.4
Households (thousands)	171.90	218.10	+26.9	243.20	+11.5
Effective buying income (billions $)	$ 3.08	$ 5.42	+76.0	$ 10.01	+84.7
Average household effective buying income (thousands $)	$ 17.92	$ 24.88	+38.8	$ 41.17	+65.5
Total retail sales (billions $)	$ 1.58	$ 2.66	+68.4	$ 4.80	+79.3
Per household retail sales (thousands $)	$ 9.19	$ 12.21	+32.9	$ 19.60	+60.5
Building materials/hardware sales (millions $)	NA	$ 99.40	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ^{E}—estimate ^{P}—projection NA—Not available

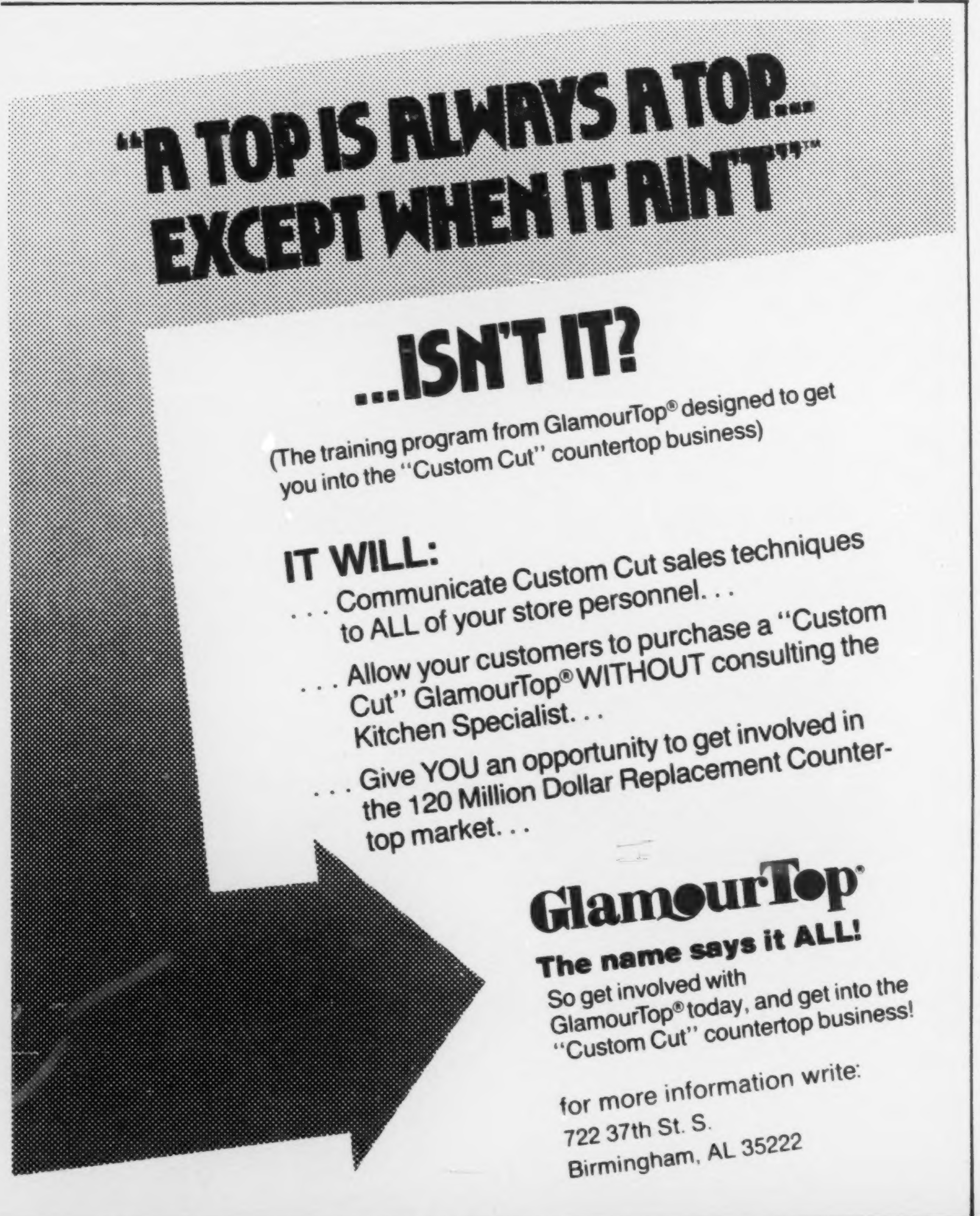
HOUSING STARTS	1981	1982	% change	1983^E	% change	1984^P	% change
Total (thousands)	4.62	4.69	+1.5	9.40	+100.4	9.80	+4.3
Single family (thousands)	2.84	3.08	+8.5	5.90	+ 91.6	6.30	+6.8

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$72.46	$74.40	$77.76

Sources: National Assn. of Realtors, local real estate boards

NHCN charts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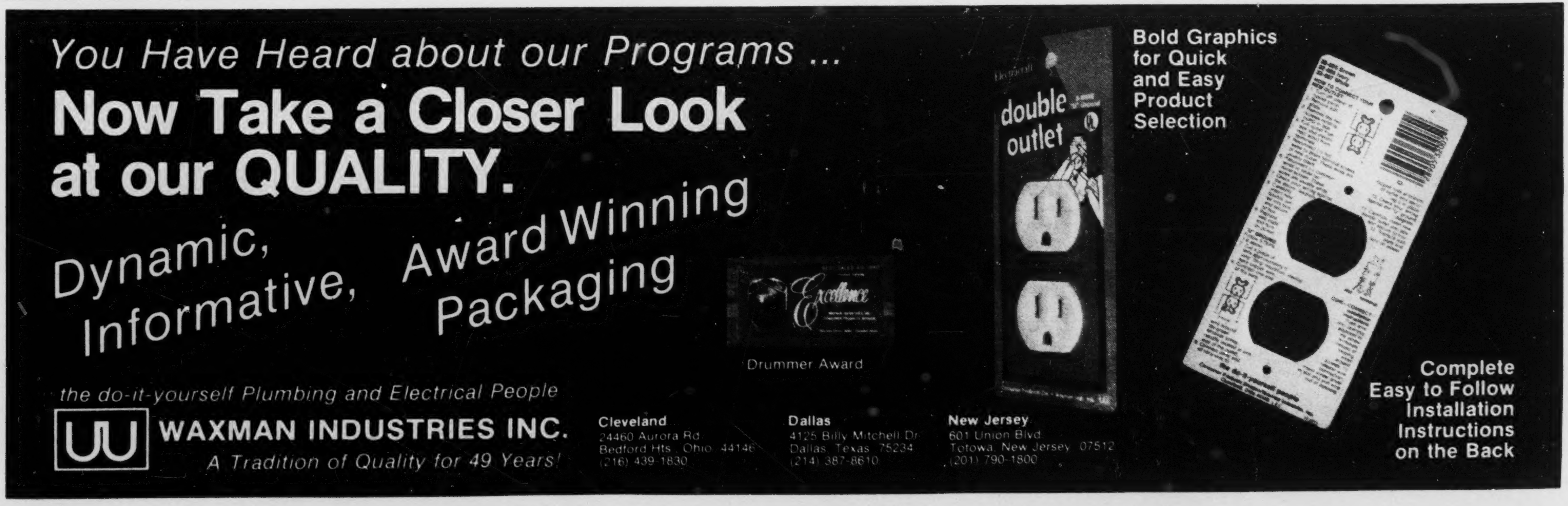
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NHCN's 1984 METRO MARKET OUTLOOK

DIY execs predict Tucson boom

TUCSON, Ariz.—Home center industry executives who have examined this desert city's economy, population and housing trends share the same opinion: it is developing into an excellent DIY market.

Home Depot chairman Bernard Marcus, who began his Arizona expansion with three units in Phoenix, is now pondering expansion into this city, he told *NHCN*. Payless Cashways, which has been in Tucson since 1947, acquired the three-unit Wood Brothers chain late last year, and now has five units in the Tucson vicinity. Said Payless president David Stanley, "We would not have made this acquisition if we were finished expanding in the Tucson market."

But that's not the only DIY activity here. Phoenix-based O'Malley Building Materials took over the operation of the four Handy Andy home centers in Tucson and one in Sierra Vista, Ariz., last August. Other DIY dealers represented here include Handyman, Sutherland Lumber and 84 Lumber.

While no price wars are being fought yet, industry observers say that Tucson could develop into Arizona's next DIY battleground.

According to a recent study by economist Willard F. Sprague of the Federal Home Loan Bank of San Francisco, Tucson will boom during the next decade thanks to its "excellent prospects for becoming a major center of high technology manufacturing."

Depot's Bernard Marcus began his chain's Arizona expansion with three units in Phoenix. Tucson may be next. NHCN photo

A recent *Sales & Marketing Management* survey reports that Tucson, with a population of 581,000, ranks 84th nationally in total retail sales, at $2.56 billion, while its building materials and hardware store sales rank 139th, totaling $78.9 million.

Yet population is expected to reach 840,000 by 1992, creating a need for up to 130,000 additional dwelling units. Sprague suggests that the need to control housing costs is likely to reduce home sizes here, increasing the densities of developments and stimulating demand for condominiums and mobile homes.

Sprague said in his 10-year Tucson outlook that he found Tucson and its vicinity will experience economic expansion and population growth far in excess of national trends. He traced the area's bright future to the selection of Tucson six years ago as the site for a new IBM plant, which focused national attention on the area's high technology potential.

Sprague said that Tucson will probably never match the Silicon Valley in California, but, "Tucson can expect to attract substantial outside investment in new [high technology] facilities. There is sound reason to believe that a good deal of this will represent a choice over competing locations in California."

Tucson's unemployment rate is 7.6%, according to the Bureau of Labor Statistics, and its proximity to the international border offers Tucson-area manufacturers an opportunity to take advantage of lower labor costs by placing some plants in Mexico.

O'Malley, following the Handy Andy acquisition, changed the name of the Sierra Vista Handy Andy to O'Malley but kept the existing Handy Andy trade name in the Tucson stores. Payless Cashways, however, changed the Wood Bros. stores to the Payless name. The Wood Bros. are undergoing what Stanley called "fine-tuning" to more closely fit into the Payless concept. At Handy Andy, O'Malley mm Stephan Elliott said the stores have not been remodeled, although that plan was on the drawing boards.

The chains with representation in both Tucson and Phoenix appear to be concentrating their promotional and operational efforts on Phoenix, where The Home Depot's market entry has touched off an unprecedented price war, leaving Tucson, for the moment, in the shadows. But clearly, with Home Depot considering this as a probable market, Tucson's home center activity is certain to heighten, and soon.

The Tucson market at a glance

DEMOGRAPHICS	1977	1982	% change	1987^P	% change
Population (millions)	0.47	0.58	+23.4	0.66	+13.8
Households (thousands)	165.90	220.90	+33.1	254.9	+15.3
Effective buying income (billions $)	$ 2.60	$ 4.90	+88.4	$ 8.40	+71.4
Average household effective buying income (thousands $)	$ 15.50	$ 22.20	+43.2	$ 33.00	+48.6
Total retail sales (billions $)	$ 1.60	$ 2.57	+60.6	$ 4.31	+67.7
Per household retail sales (thousands $)	$ 9.74	$ 11.62	+19.3	$ 16.92	+45.6
Building materials/hardware sales (millions $)	NA	$ 78.89	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ^{E}—estimate ^{P}—projection NA—Not available

HOUSING STARTS	1981	1982	% change	1983^E	% change	1984^P	% change
Total (thousands)	4.80	6.25	+30.2	10.50	+68.0	8.00	−23.8
Single family (thousands)	1.90	2.25	+18.4	3.80	+68.9	4.50	+70.0

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$72.5	$77.2	$\$77.2^E$

Sources: National Assn. of Realtors, local real estate boards

NHCN charts

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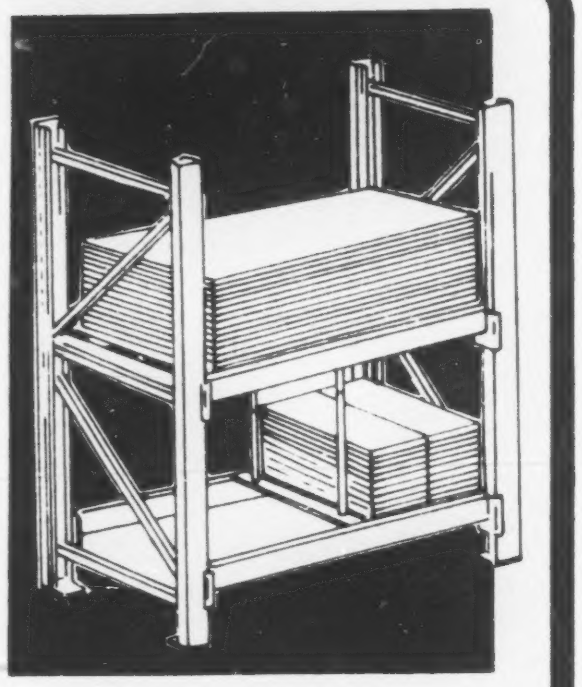

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NHCN's 1984 METRO MARKET OUTLOOK

Phoenix battle fierce in Sunbelt DIY wars

(Continued from page 1)

Clearly, though, the biggest threat by invading chains appears to be to O'Malley's, which until recently dominated the DIY market here, as an adjunct to its contractor and wholesale building material business.

Perry Steinhoff, advertising manager for O'Malley's, conceded the chain is "solidifying and protecting our current customer base—but we don't expect we'll be expanding as rapidly as we'd like."

Retailers are clamoring for a piece of turf in Phoenix, perhaps more than most markets, because of the market's prospects for growth.

Among metropolitan areas with populations of 100,000 or more, Phoenix is expected to be the third fastest growing market between now and 1987, behind Houston and Riverside-San Bernardino, Calif., according to a 1983 *Sales & Marketing Management* report.

Phoenix's population will grow by 18%, from 1.65 million currently, to 1.95 million by 1987, according to the *Sales & Marketing Management* report, which will make it the 19th largest metro market in the country.

Phoenix ranked 27th nationally in total retail sales in 1982—the latest period for which figures are available posting $7.63 billion in retail sales. And it ranked 22nd in building material and hardware stores sales ($343 million).

Meanwhile, single-family home construction in the past year has nearly doubled from 1982's production, to 23,000 units, according to National Assn. of Home Builders estimates, and projections for 1984 call for a 13% increase over 1983, despite a slippage in multiunit construction.

While home center retailers operating in Phoenix aren't wasting any time trying to win a ground-floor position in the market long before it matures, the battlelines seem drawn primarily around the issue of price.

In a full-page advertisement in The Arizona Republic and Phoenix Gazette newspapers, for instance, Handyman proclaimed; "We cannot be undersold. We will give you 10% off anybody's advertised prices [on identical items!]".

Angels has been emphasizing in its fall and early winter circulars that "one home center is all you need," with ads and in-store banners claiming "lowest prices in Arizona," "warehouse low prices" and "bargain basement prices."

Payless Cashways meanwhile claims in its advertising that "we'll beat anybody's advertised price on any item we sell. . . . Since we guarantee the lowest prices on advertised items, there's no reason to go anyplace else."

And The Home Depot, in a program it offers in all its markets, promotes a guarantee card in which the chain promises to "slash 5% off the price of any competitor's identical advertised items."

Some DIY dealers are not playing the lowest-price game. Employees at 84 Lumber and at Ray Lumber said they are not altering their price strategies.

Neither is Foxworth-Galbraith. Bob Jacques, assistant floor manager, explained that "the biggest thing we have is service. We're not going to match prices because that's like saying we've been screwing you all these years, and now we're going to be competitive."

O'Malley's Mesa store, near The Home Depot, reportedly posted $96,000 in sales the week of The Home Depot's opening compared with $106,000 it did the preceding week and $79,000 for the year-earlier comparable period. Retailers in general reported good sales despite The Home Depot's debut.

"The Home Depot looks at us as retailers that can be squashed like a bug," asserted one competitor. "But one thing about the Arizona market. People like familiar settings, they don't like change. It's not an Eastern market."

Before The Home Depot's arrival, an O'Malley's survey conducted by a local research firm determined that consumers perceived Payless Cashways as having the lowest prices, followed by Angels, O'Malley and Handyman, prompting O'Malleys to fight back with its price guarantee program.

Steinhoff reports that only "one in 400 customers" takes advantage of it. The store manager of a Payless unit said it costs him less than $200 a week to meet its guarantee that "we will not be undersold."

While dealers expect The Home Depot to pull $20 million-$30 million out of the market, Steinhoff's observation was supported by many: "The pie is going to get bigger. Home Depot is taking a big chunk, but other people's slices won't be cut as much as you'd think."

The Phoenix market at a glance

DEMOGRAPHICS	1977	1982	% change	1987^P	% change
Population (millions)	1.30	1.70	+ 30.8	1.90	+11.8
Households (thousands)	447.20	616.40	+ 37.8	737.20	+19.6
Effective buying income (billions $)	$ 7.60	$ 15.40	+102.6	$ 29.20	+89.6
Average household effective buying income (thousands $)	$ 16.90	$ 25.00	+ 47.9	$ 40.00	+60.0
Total retail sales (billions $)	$ 4.80	$ 7.60	+ 58.3	$ 13.70	+80.3
Per household retail sales (thousands $)	$ 10.70	$ 12.40	+ 15.9	$ 18.60	+50.0
Building materials/hardware sales (millions $)	NA	$343.00	—	NA	—

Source: Sales Marketing Management Survey of Buying Power© ^{E}—estimate ^{P}—projection NA—Not available

HOUSING STARTS	1981	1982	% change	1983^E	% change	1984^P	% change
Total (thousands)	19.40	22.50	+16.0	43.0	+91.1	36.0	−16.2
Single family (thousands)	10.30	12.50	+21.4	23.0	+84.0	26.0	+13.0

Source: National Assn. of Home Builders

EXISTING HOME PRICES	1981	1982	(3rd Q) 1983
Median sales prices of existing single-family homes (thousands $)	$66.0	$67.0	$71.7^E

Sources: National Assn. of Realtors, local real estate boards

NHCN charts

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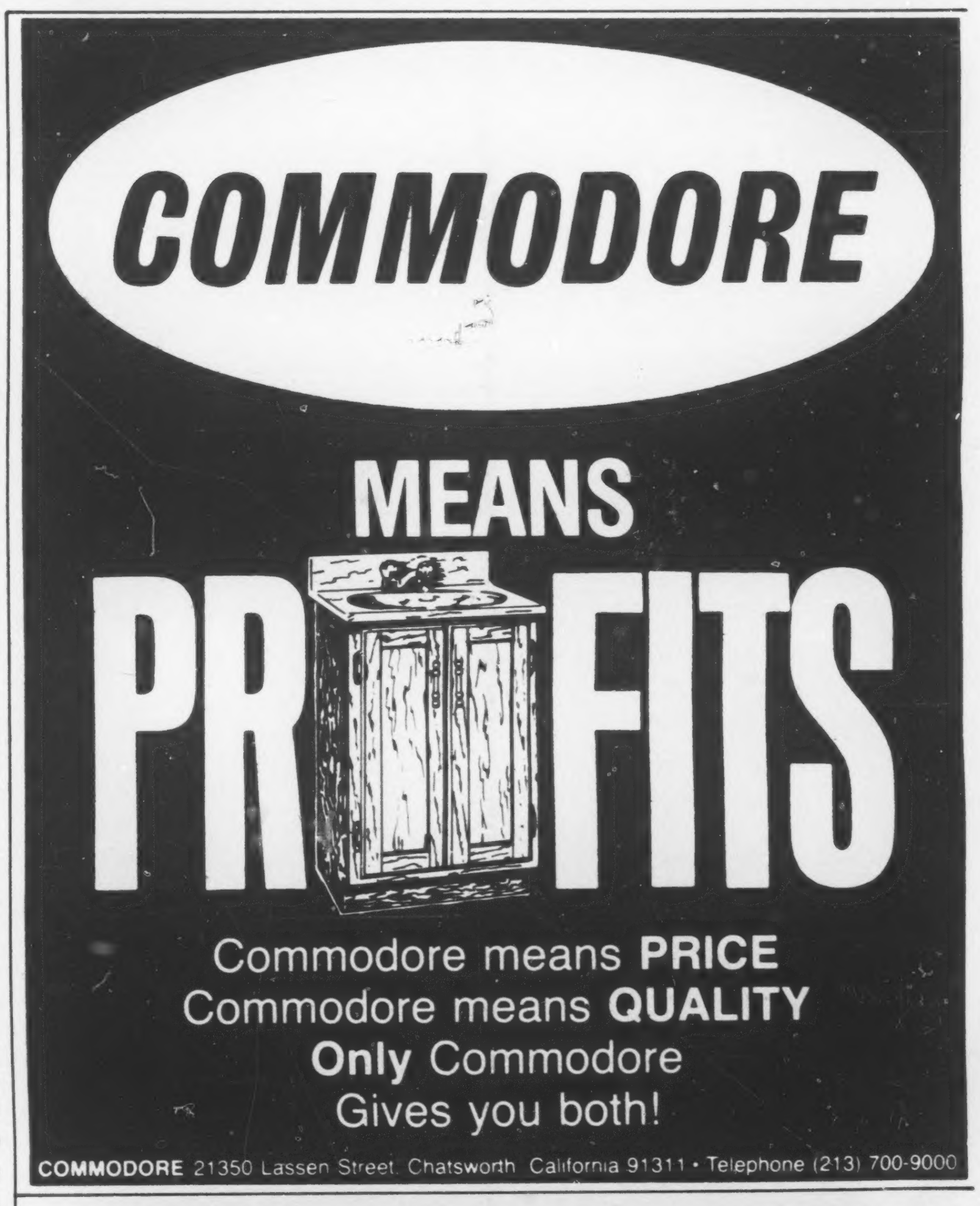
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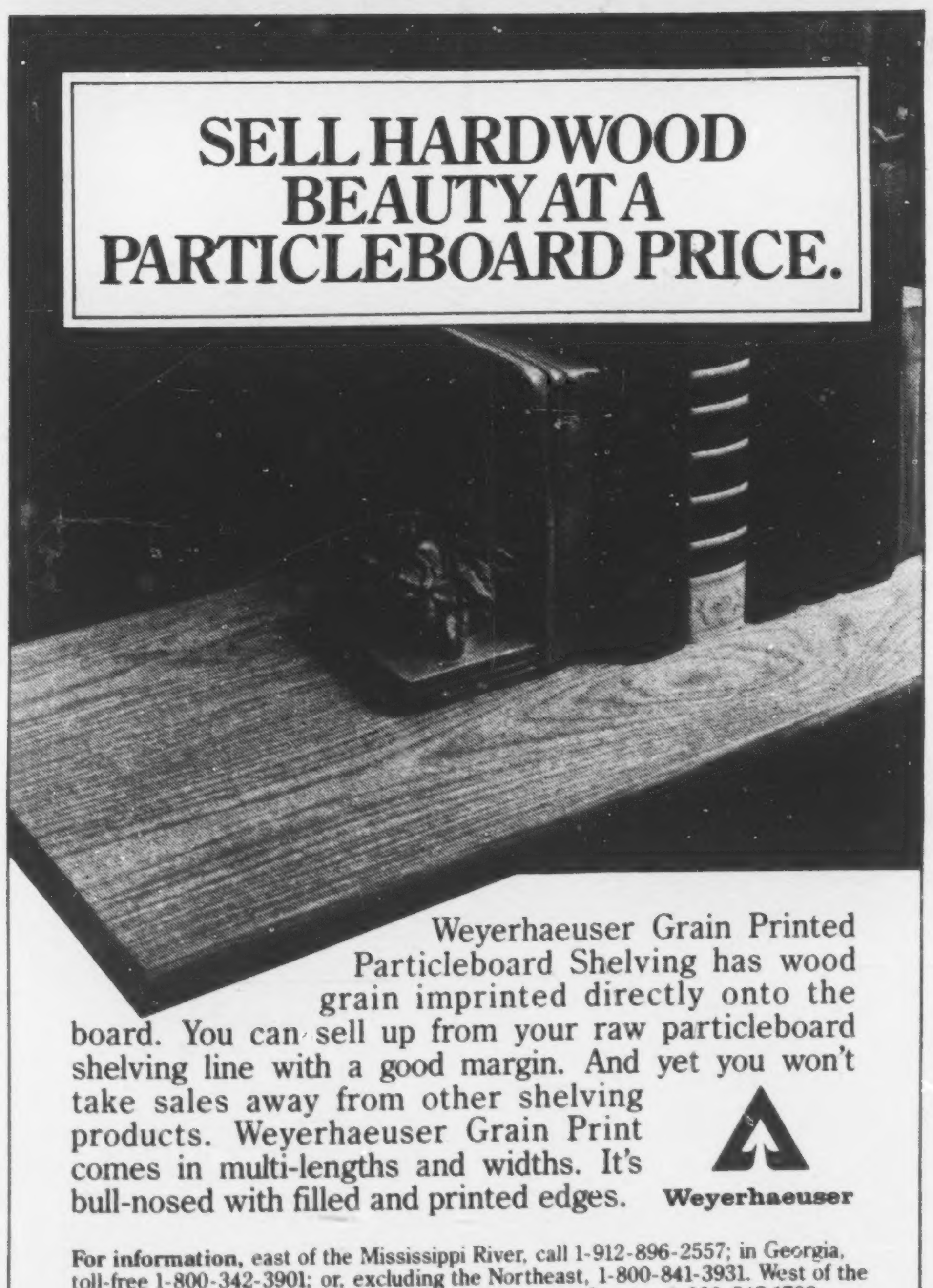
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ADVERTISING & MARKETING

DIY industry TV spending rising at 62% clip

NATIONAL REPORT—Spending among the industry's top 15 television advertisers increased 62% for the first three quarters of 1983, reaching a total of $15.9 million by Sept. 31.

According to statistics released by the Television Bureau of Advertising, TV expenditures rose fastest at Scotty's Inc. of Winter Haven, Fla., whose nine-month total of $887,000 represented an increase of 2,216% over the $38,300 spent on television for the same period last year. Scott's of Linthicum, Md., also showed a dramatic increase, upping its TV allocation 1,348% to $338,900.

Payless Cashways remained at the head of the list for the third consecutive quarter. Spending by the Kansas City, Mo., chain rose to $3,448,900 for 114 Payless Cashways and Furrows stores. Meanwhile, Lumberjack, the northern California home center company acquired by Payless last January, allocated $473,500.

Ole's Home Centers of Pasadena, Calif., continued the downward trend it began more than a year ago. The 33-store chain decreased its TV expenditure by 32%, allowing it to fall from $578,300 for the first nine months of 1982 to $390,800 during the same period last year. However, Ole's recently launched a new TV ad campaign with Phyllis Diller as company spokesman.

Hechinger of Landover, Md., lowered its TV expenditure by 6%, from $627,500 to $591,400, compared to the previous period.

The spending estimates, compiled by Broadcast Advertisers Reports Inc. (BAR) and broken out for the home center industry by the Television Bureau of Advertising (TVB), showed a considerable leap over expenditure levels from 1982, when only three of the top 15 chains allocated more than a million dollars to television. Spending among the top 15 for the first three quarters of that year totaled $9.8 million.

TVB spokesman Bob Grebe cautioned that BAR estimates provide only an approximate view of individual spending levels. Moreover, figures reflect TV time purchased, but not how much, if any, is reimbursed with co-op money; additional TV time is also often credited to manufacturers instead of local stores, he added.

Scotty's spent approximately $336,200 in six Florida markets during the third quarter alone. More than 80% of the 1,000 30-sec. spots purchased by the chain ran in Tampa and Orlando. Scotty's heaviest spending took place in July and August, when it spent $126,800 and $125,700, respectively. Spending for September was estimated at $83,700.

Scott's, with 17 stores in the Washington-Baltimore area, bought a little over half the number of spots purchased by Scotty's, but for about a third of the price because not all were 30 sec. commercials. The chain spent $128,800 during the third quarter, $77,000 of which was allocated for September. Half the 546 spots purchased were 10 sec. in length, the rest being 30-sec. commercials, while spending in the Washington market oupaced that for Baltimore by about 2-to-1.

Payless Cashways, which began its first concerted TV campaign in August 1982, spent $1.1 million in 14 markets during last year's third quarter, according to TVTS. The allocation bought 2,000 spots, all 30 sec. in length, with $788,900 worth running in September.

Payless' third quarter expenditures were heaviest in Dallas, where the chain spent approximately $576,000 for 612 commercials. The second heaviest concentration of TV coverage was in Houston with $228,000 spent on 204 spots. Columbus received an allocation of $118,100 for 386 commercials.

Meanwhile, Lumberjack used a third quarter expenditure of $261,400 to purchase 1,147 30-sec. spots in the Sacramento market.

Sutherland Lumber followed Payless in the No. 2 position, with a $1,866,200 TV expenditure for the first three quarters of the year. The Kansas City chain spent $410,700 in 11 markets during the third quarter itself, purchasing a total of 1,824 30-sec. spots. More than $189,000 of the third quarter expenditure was allocated in September, the heaviest month of concentration.

Builders Emporium, the heaviest TV advertiser until last year, was shown in third place with a nine-month expenditure of $1,842,000. BE's third quarter spending was actually larger than Sutherlands', estimated at $461,900. The third quarter campaign focused solely on the Los Angeles market with 452 30-sec. spots. Far and away the largest portion of the third quarter expenditure—$200,900—was allocated during the month of July.

Top 15 TV ad spending Jan.-Sept. 1982-83

Chain	Expenditures Jan./Sept. '82	Expenditures Jan./Sept. '83	% change
1. Payless Cashways* Lumberjack	$ 782,000 307,600	$3,448,900 473,500	+ 341 + 54
2. Sutherland Lumber	1,173,100	1,866,200	+ 59
3. Builders Emporium	1,549,000	1,842,100	+ 19
4. Home Depot	687,700	1,274,700	+ 85
5. National Lumber	1,004,700	1,179,300	+ 17
6. Lowe's	602,300	1,033,000	+ 72
7. Plywood Minnesota	774,700	930,700	+ 20
8. Scotty's	38,300	887,000	+2,216
9. Hechinger	627,500	591,400	– 6
10. Mr. Good-Buys	361,700	531,200	+ 47
11. Pay 'N Pak	393,600	492,600	+ 54
12. Menard Cashway	360,900	449,300	+ 24
13. Ole's Home Centers	578,300	390,800	– 32
14. Scotts Lumber	23,400	338,900	+1,348
15. Knox Lumber	168,100	291,400	+ 73

*Does not include Lumberjack, acquired by Payless in January 1983
Source: Television Bureau of Advertising from analysis of Broadcast Advertisers Reports data; *NHCN* chart

Canadian Show to introduce new exhibit section

TORONTO—The Canadian Hardware Show said it will introduce an international exhibit section at this year's show, to be held Feb. 12-15 in the Industry Building/Coliseum Complex at Toronto's Exhibition Place.

The show is produced and managed by the Canadian Retail Hardware Assn. For further information, write the CRHA at 6800 Campobello Road, Mississauga, Ontario, L5N 2L8; or call 416-821-3470.

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MERCHANDISING FEATURE:
Millwork swings to high end—pp. 15-19

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National
Home Center News®

Vol. 10, No. 2 The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. January 16, 1984

New York catches warehouse fever

Warehouse home centers are hitting the Northeast, with Grossman's Long Island units among several making dramatic use of endcaps. An employee, on forklift at right, slides price cards into place. See story, page 3.

Home centers ride crest of holiday shopping wave

By Phillip M. Perry
NHCN associate editor

NATIONAL REPORT—Home centers experienced their strongest Christmas sales in years, according to an *NHCN* telephone poll.

Snow throwers, telephones, tools, artificial Christmas trees and "trim-a-tree" departments did particularly well.

Anticipating an increase in sales because of an improved economy, many stores added new product lines and expanded older ones. Despite these moves, inventories of such merchandise going into January were fairly clean.

"Our December sales were 50.4% higher than the previous year, making it our best Christmas in history," said Richard Fox, merchandise manager at Scott's, Linthicum, Md.

"It's been a phenomenal Christmas," said Harold Cohen, vice president of Somerville Lumber & Supply, Sommerville, Mass. "Our sales for December were about $4 million, up about 33% over the previous year's December."

"We've had double-digit increases in Christmas sales over those of the year before," said Tom Cawley, vice president of merchandising at Peter Kuntz, Dayton, Ohio. He cited a general improvement in the economy as one of the primary reasons.

Among other chains reporting higher Christmas sales than they generated for the same holiday a year ago were: Gee Lumber and Hardware, Chicago; Star Lumber & Supply, Wichita, Kan.; H&H Home Center, Seaside, Calif.; Builderama, Savannah, Ga.; All American Home Center, Downey, Calif., and Stambaugh-Thompson, Youngstown, Ohio.

One reason for the increased sales was clearly the economic recovery that caused shoppers to spend more Christmas dollars than they had for nearly five years.

Additionally, home centers took the initiative to attract a greater number of customers. Aggressive advertising campaigns were launched. Trim-a-tree departments were added to many stores. And home centers stocked attractive displays of telephones—a product that for the first time impacted their Christmas sales.

All American sold about 2,000 telephones in the month of December, at a price of $7.99, discounted from $14.99. The phones were displayed in a point-of-purchase configuration on an endcap.

In the two-week period just prior to Christmas, the store sold 125 cordless phones at $55 each.

Toward the end of December, All American followed up its successful Christmas telephone sale by promoting the $7.99 model at $2.99 to bring in customers during the post-holiday period.

(Continued on page 45)

Weyerhaeuser bids for greater share of distribution market

By John Caulfield
NHCN senior editor

TACOMA, Wash.—Weyerhaeuser, in a bid to reduce the cyclical risk of distributing primarily lumber, and to reposition itself as a stronger supply source for a retail building materials market, has set its wholesale distribution division on a new course, turning its 64 "Customer Service Centers" into separate profit entities, and launching an expanded product mix campaign dubbed, "First Choice."

Over the past six months, the nation's largest forest products producer has given its distribution center managers the autonomy to purchase wood products from whichever mills or wholesalers are offering the best price. The $5 billion corporation has also directed its distribution managers to expand their product mixes to include nonwood commodities previously not carried.

The addition of about 40 new product lines—including roofing, insulation, sheathing and metal products—has increased the inventory of each DC by around 10%, and another 10% was added to the DCs' wood products selection in dimensions and types more suited to retail sales. The DCs, which average 40,000 to 45,000 sq. ft. on six to seven acres of land, now stock from $1.5 million to $3 million in inventory at cost each, and in 1983 they collectively generated about $1 billion in sales.

This more aggressively competitive stance could make Weyerhaeuser a more attrac-

(Continued on page 46)

Mich. Gen'l taps Brignole to direct Diamond fortune

By Greg Puchalski
NHCN senior editor

DALLAS—In its first major action since acquiring Diamond International's 97 home centers last September, Michigan General late last month named Mike Brignole, former president of its Krestmark door and window division, to head its new Diamond Lumber subsidiary.

Brignole told *NHCN* that his first major task as Diamond president will be centralization of the subsidiary's three regions.

The move is a step toward development of a purchasing and marketing program that takes full advantage of the combined buying power of 97 stores. Until now, Diamond's three divisions primarily did purchasing separately.

Diamond now has its headquarters and a regional office in Sacramento, with other regional offices in Boulder, Colo., and Wakefield, Mass. The new plan calls for relocating Diamond headquarters to Dallas, perhaps not this year, while maintaining the regional offices.

Several distribution centers are envisioned in the plan, which Brignole feels will make inventory management more efficient. A future point-of-sale system will provide the capability "of knowing what we have," he said, adding that Michigan General is aware of the unique problem it faces in consolidating its new subsidiary.

"The stores operate in unique areas," he said. "When you look

(Continued on page 45)

NEWSBREAKS

LOWE'S INTO MISSOURI. Lowe's will enter Missouri for the first time this year, with a 25,000-sq.-ft. store. While investors relations vp Bill Brantley would not reveal the specific market, he joked, "It's safe to say it's not Kansas City."

INSIDE:

HOUSING STARTS closed out 1983 on a strong note leading analysts to predict continued recovery in early 1984 .. Page 2
ENERGY PRODUCT BUYERS rely on lumberyards and hardware stores more than home centers, according to a new national survey .... Page 3
OLE'S HOME CENTERS has modified every store in the chain with many warehouse features .... Page 4
ORCHARD SUPPLY is re-evaluating its unique product mix and large number of sku's to combat competitive pressure Page 22
GROSSMAN'S heralded the opening of three Long Island warehouse stores last month with a blitz of newspaper ads Page 29
STAR LUMBER will have a computerized price book by this spring, moving closer to total inventory control ..... Page 37

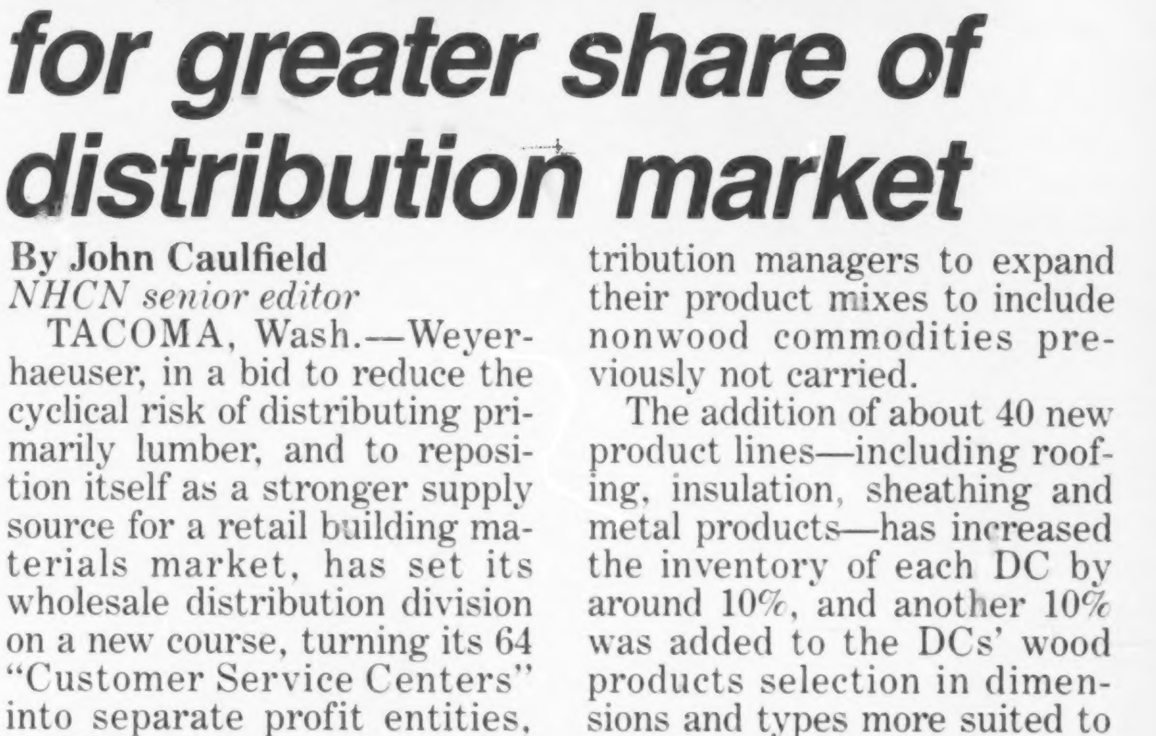
Latest Gov't figures show:
Improvement spending soars in 3rd qtr.

WASHINGTON—The level of home improvement expenditures hit a record high during the third quarter of 1983, soaring 24.1% above the second quarter seasonally adjusted annual rate of $46.5 billion, to $57.7 billion.

According to recently released figures from the U.S. Department of Commerce, Americans spent most of their home improvement dollars on additions and alterations, with expenditures reaching $26.9 billion on a seasonally adjusted annual basis. The figure was up from $25 billion during the second quarter, and $19.8 billion recorded during the first quarter, and well above the previous-year period $16.1 billion.

Maintenance and repair projects accounted for $18.5 billion of the third-quarter total, while

(Continued on page 46)



Source: U.S. Dept. of Commerce; *NHCN* chart

The rate of home improvement expenditures soared to $57.7 billion during the third quarter of 1983, setting a new high.

NHCNews Briefs

Industry Update

Whse boosts Pay 'N Pak sales

KENT, Wash.—A 42% increase in volume at the flagship store here, since the unit was converted to a warehouse store in late October, helped to boost Pay 'N Pak's earnings by 47% and sales by 32% during its third quarter ended Nov. 30, officials reported.

The chain's net income reached $3,125,991 in the period on revenues of $68.1 million, they said.

The converted unit near headquarters is the prototype for other future Pay 'N Pak warehouse-type locations. The chain plans to open at least four more such stores, including one in Honolulu in April (*NHCN*, Oct. 24, 1983), by the end of the next fiscal year in February 1985, according to officials. Other warehouse outlets are scheduled to debut in the San Francisco area over the next three years.

Pay 'N Pak has also recorded a 24% store-for-store sales gain during the first nine months of fiscal 1984, thanks in part to the remerchandising of most of Pay 'N Pak's 100 units, the addition of lumber and building materials among other sku's to them and higher gondolas (*NHCN*, May 23, 1983). Remerchandising at the last 25 units in the chain will be completed this month, officials said.

Scott's considers '84 offering

LINTHICUM, Md.—Scotts Seaboard officials hope to open two to three new units per year beginning this year (*NHCN*, Sept. 26, 1983) and "is considering the possibility of raising additional capital for expansion through a public offering of securities in 1984," president Earl R. Halterman Jr. said in his third quarter report to shareholders.

Scott's, with 17 stores in the Baltimore/Washington market, more than doubled its store count in the last two years with the acquisition of seven former Frank's Hardware outlets as well as its own internal growth. The company presently has 1.8 million common shares outstanding.

With a possible sale of more stock looming, the company continues to grow at its present locations.

In the third quarter ended Oct. 29, 1983, Scotts Seaboard's net income rose to $65,000 from $4,000 in the previous year. The figure included an income tax benefit of $23,000 from a net operating loss carryforward.

Income from continuing operations, the 17 Scott's stores, before the extraordinary credit totaled $46,000 compared to a loss of $32,000 in the third quarter of 1982, officials said.

Scott's sales in the period rose 21% from a year ago to $8,647,000 as volume at each unit showed improvement, according to officials. The performance has stemmed from a strong marketing campaign, including twice as much advertising spending and television promotions, and a stable economy.

Peter Kuntz building largest unit

DAYTON, Ohio—Peter Kuntz Building Centers, a $50 million privately held chain, was scheduled to break ground for its largest unit during the first week of January.

Located in Englewood, Ohio, the new unit, the chain's 25th, has 40,000 sq. ft. of indoor space, including a 12,000-sq.-ft. warehouse. The store will also have 10,000 sq. ft. of outdoor selling area for lawn and garden merchandise.

Previously, the chain's largest store was a 35,000-sq.-ft. outlet in Huber Heights, Ohio (*NHCN*, July 4, 1983).

A summer opening is slated for the Englewood store.

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Vol. 10, No. 2 January 16, 1984

Takeover causes personnel shift as Payless eyes future markets

KANSAS CITY, Mo.—To smoothly incorporate the planned acquisition of H. M. Woods/Prime Home Improvement Centers into the chain, Payless Cashways expects to break out its Colorado market into a separate region, its fifth.

Shifts in corporate management resulting from this breakout will allow the 121-unit chain to have key personnel concentrate exclusively on its expansion into the eastern United States.

Stan Boyd will become Payless' third regional executive and will oversee the Colorado region, where Payless had operated seven stores. The market was made larger for the chain by its agreement to purchase Prime, whose 13th Colorado Hugh M. Woods store is expected to open next month.

Boyd, who joined Payless in 1974 and served as its district manager in Dallas since 1981, will also initially be in charge of Prime's two units in Las Vegas.

Along with the Prime acquisition, Payless plans to open 21 new units in 1984, many in the state of Ohio, where it will be cracking into the Dayton and Cincinnati markets for the first time.

The company is already looking ahead toward its 1985 expansion schedule, and, according to senior vp Dick Hemer, is investigating growth into several more eastern markets, most prominently Louisville, Ky., although no moves have been finalized.

"Our expansion this year is going to take up most of our time, but there are a number of areas in the East we're thinking about," he said. "However, we're not certain whether, in 1985, we'll attempt to move into some of those markets, or fill in our existing markets in Texas and California."

Eastern expansion does appear to be a priority with the chain. Regional vice president Larry Morrissey has relinquished his supervisory responsibilities over Payless' 18 stores in Iowa, Minnesota and Illinois "to devote more time to expansion in the company's eastern markets," according to a Payless spokesman.

Morrissey will continue to oversee the chain's Indiana and Ohio stores, and regional executive Bruce Hokanson will take over the states Morrissey no longer handles. Hokanson will also run Payless' 11 units in Nebraska and Missouri, but hands over his responsibilities in Colorado to Boyd.

All position changes take effect when Payless assumes ownership of Prime, expected sometime this winter.

Year-end housing figures indicate continuing recovery trend in '84

NATIONAL REPORT—With November seasonally adjusted total housing starts at 1.75 million units, 6% ahead of October and 29% greater than November 1982, last year drew to a close with the same strength that characterized most of the year.

Single-family seasonally adjusted starts were also up from October as were permits for both total and single-family housing. The year is expected to end with roughly 1.7 million starts, a 55% increase over the 1.08 starts of 1982.

Single-family starts are expected to reach 610,000 for 1983, up 48% from the 412,000 in 1982, according to the National Assn. of Home Builders.

The question now is whether last year's momentum will propel the housing industry through 1984. The NAHB and other housing industry observers are predicting that roughly the same number of houses will be built this year as last.

Many of the factors that helped swing housing back from 1982's low, with the worst production rate in about 40 years, are still operating. At the same time, however, other influences mitigate against this year surpassing 1983 in housing production.

According to Smith Barney Harris Upham vp Barbara Alexander, part of what fueled last year's rebound was high pent-up demand among potential home buyers, a sophisticated assortment of revolutionary mortgage instruments that improved affordability and the continuing appeal of homeownership's tax advantages.

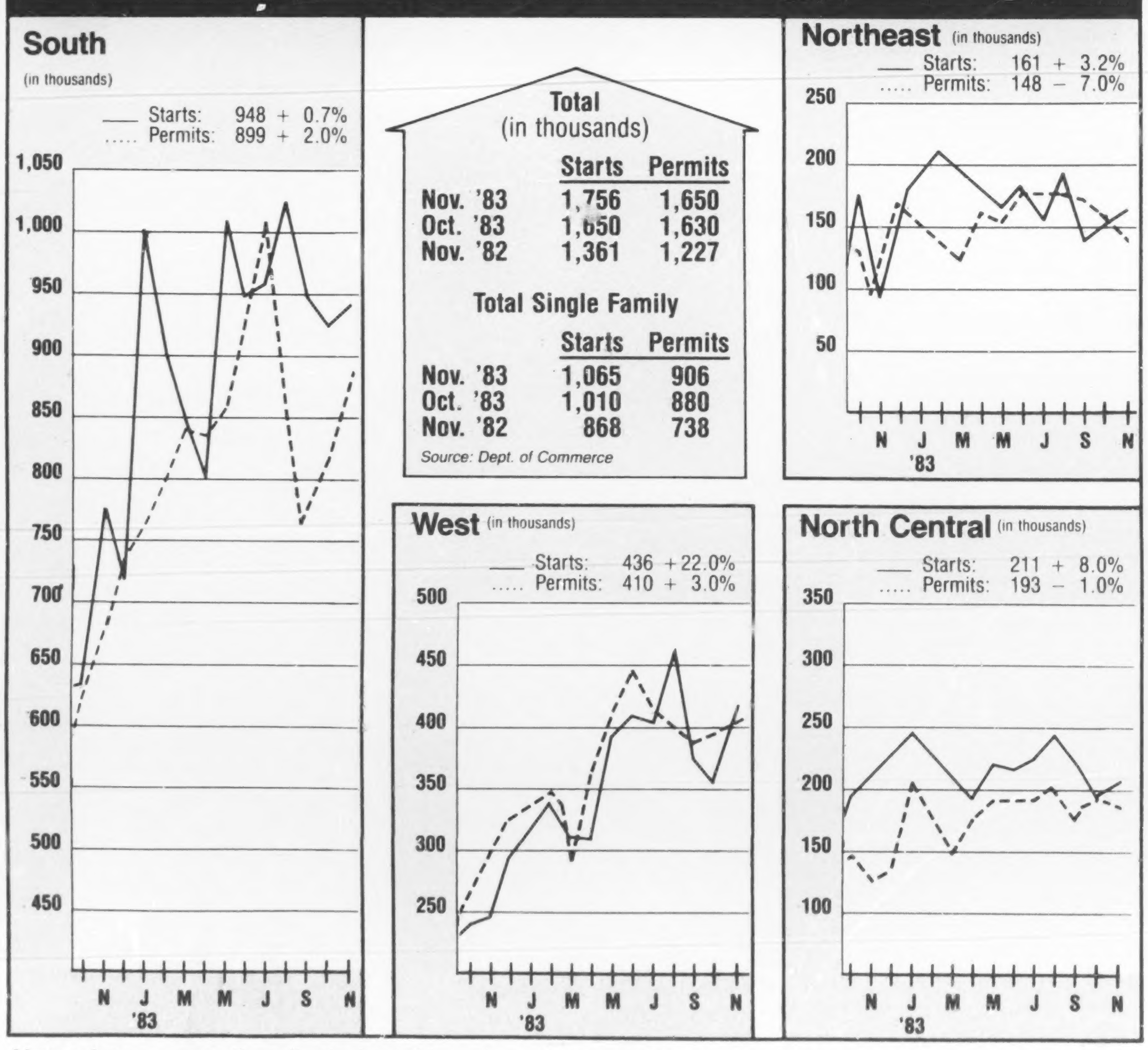
While tax benefits will continue to be an attraction, and more and more mortgage possibilities are available, Alexander questions whether last year vented much of the pent up buying pressure. Additionally, interest rates remain uncertain and could rise later in 1984, possibly dampening housing, according to Alexander.

On the other hand, the improved economy overall and the lessening of unemployment could bring more prospective buyers in the market and Alexander sees particular potential in trade-up home sales.

Home builders, polled in December by the NAHB, were also optimistic. Half expected

(Continued on page 45)

November home-building activity



Total
(in thousands)

	Starts	Permits
Nov. '83	1,756	1,650
Oct. '83	1,650	1,630
Nov. '82	1,361	1,227

Total Single Family

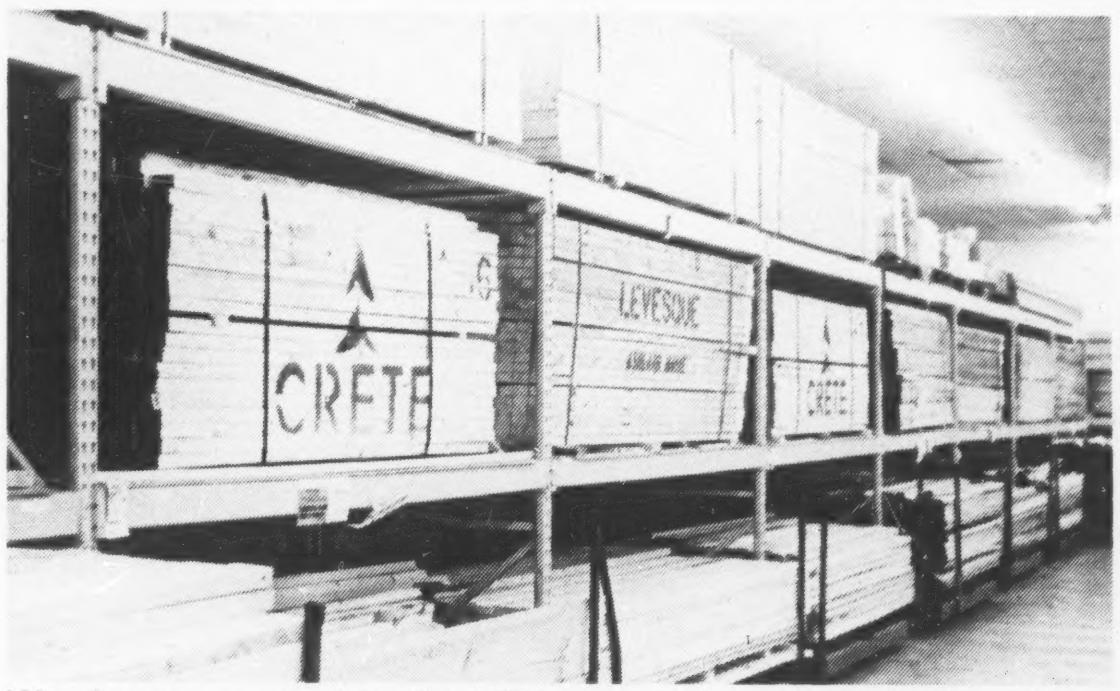
	Starts	Permits
Nov. '83	1,065	906
Oct. '83	1,010	880
Nov. '82	868	738

Source: Dept. of Commerce

November seasonally adjusted total housing starts reached 1.75 million, 6% ahead of October and 29% up from November 1982. Last year's total housing output is expected to reach 1.7 million, a 55% increase over the 1.08 starts of 1982.

Chains launch warehouse format in Northeast

By Kenneth Schept
NHCN executive editor



Warehouse conversion allows Pergament to make a significant in-store lumber presentation, while Grossman's emphasizes lumber with endcap short board display. Below right, Grossman's Babylon, Long Island, store is a clean refinement of its California units; in its first warehouse venture, below left, Pergament uses fixtures to house a light cloud.

NHCN photos

NEW YORK—Warehouse home centers, which to date have been primarily a Sunbelt phenomenon, have suddenly taken hold here in the Northeast.

In the past two months Grossman's, with a hand full of stores in the market, has converted three Long Island units to warehouses. And Long Island-based Pergament took the step, converting its largest Bethpage store to a warehouse format.

Meanwhile Rickel is expected to remodel a New Jersey store with warehouse racks within the next two months, according to a well-placed source outside the company, while its arch-rival Channel continues to experiment with warehouse stores in metro-Washington.

Additionally, Mr. Goodbuys, now capitalized with foreign investment, (*NHCN*, Jan. 2), will soon replace its Union, N.J., store with an updated warehouse and the firm is looking for more north Jersey locations.

Also in Union, four-store Jaeger Lumber plans to transform 80,000 sq. ft. of storage area adjacent to its main store into retail space. And on Long Island, Lumber Headquarters is considering warehouse remodeling for one of its 12 units, although it now appears such plans are on hold partly out of apprehension about the viability of warehouse retailing: "I'm of the old school," explained Lumber Headquarters executive Sy Mensher. "If it works someplace else, it [doesn't mean it will work] in the New York area. We have too shrewd a buying public." Time will tell.

The Grossman's Long Island venture represents a refinement of Grossman's Ventura and Stockton, Calif., warehouse merchandising and appears to be affirmation of its commitment to the warehouse style; Grossman's recently established a warehouse division.

In contrast, the Pergament's Bethpage conversion to the warehouse-style format is a first for the 40-store chain and provides space for a more complete product presentation than in the past. Pergament's Centereach, Long Island, store is the next target for warehouse conversion, according to a reliable noncompany source. Pergament gm, Marty Pepkin, said, however, that there were no warehouse plans beyond Bethpage.

The Bethpage store has about 100,000 sq. ft. of space equally divided between a main floor and a basement. Until about six months ago the home center was downstairs and the main floor was taken up by discount concessions. In a move that required round-the-clock work for three weeks last fall, the home center moved upstairs and the concessions went to the basement.

The change clearly made a statement about the dominant business Pergament is in. The high ceilings on the upper level enabled the store to take on a new look with perhaps twice the amount of stock on the floor, while stock keeping units were probably not increased dramatically.

The conversion allows a substantial in-store presentation not previously associated with Pergament of dimensional lumber—stocked in bundled units on warehouse racks—boards and structural panels as well as gypsum.

"We use to sell 200 to 300 sheets of Sheetrock per week," said a knowledgeable store source. "We now sell 1,000 sheets."

The plumbing department, particularly, has also been expanded. Medicine cabinets doubled from 12 to 25, the source noted and the store is offering 20 vanities priced from about $29.99 to about $600. While no tubs were carried before, the store now offers several in various materials. Hot water heaters are another new item.

The plumbing is merchandised on warehouse racks with a few items displayed and much of the space taken up with cartons of inventory. Toward the end of the aisle are a few, small vignettes. And the rack is capped with a vignette including a whirlpool that faces a main traffic aisle.

The electrical department was also expanded. As the same source noted, "Last year we had six to [12 ceiling fans]. This year we have 25 to 30."

The fans are displayed in the front, right of the store near the entrance, suspended from an inexpensive lattice cloud. Merchandise is bulked underneath.

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Scott's remerchandising: raising fixtures, boosting sku's by 50%

LINTHICUM, Md.—Scott's is now embarking on a major remerchandising program that will push fixture heights up to 8 ft. from their present 4 ft. to 5 ft. and accommodate a nearly 50% increase in the chain's stock keeping units, according to president Earl R. Halterman Jr.

He said that within two years after the remerchandising at each unit and combined with other programs such as improved advertising coverage, he expects a 50% sales increase per store. Through Oct. 29, 1983 encompassing the first nine months of the company's current fiscal year, the 17-store chain's sales were up 24% to $27.5 million from a year ago.

"We feel a need to stay competitive in our market [where Hechinger, Channel, Lowe's and 84 Lumber also do business]," Halterman explained. "We are trying to get a bigger market share and improve our sales per square foot. We also want to do what we can for the one-stop shopping concept. We've always felt we offer the best prices in the area. Now, we will be giving our customers a broader mix."

The sku count at the larger Scott's stores will increase by 5,000 to 6,000 items, Halterman said. Currently, the chain carries 9,000 to 10,000 items.

The increase will "probably be across the board" in Scott's basic product mix which includes lumber and building materials, lawn and garden, hardware and tools, he noted. However, Halterman did not rule out the addition of new product lines or a new department.

Scott's officials will begin the remerchandising at its 40,000-

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Poll: Lumberyards attract more energy product buyers

EMMAUS, Pa.—Home centers attract fewer energy product buyers than do lumberyards and hardware stores, according to the results of a recent national survey.

Of homeowner respondents purchasing energy products during a recent 12-month period, 62.5% did so at lumberyards 52.1% at hardware stores and 38% at home centers. The figures total over 100% because many respondents purchased energy products from more than one source.

Sears and K mart were also popular energy product sources, clocking in at 29.5% and 25.7% respectively.

Plumbing supply stores, electrical supply stores and paint stores each attracted fewer than 20% of respondents.

The survey, entitled "Home Energy Audit Study," tabulated questionnaires returned by 1,602 subscribers to New Shelter, a consumer publication devoted to the topics of home improvement, repair and home financial management. Respondents were primarily suburban male homeowners with ages averaging 40.6 years and annual incomes averaging over $31,000. The average house they owned was 21 years old with 3.3 people.

The survey also tabulated the popularity of various energy products.

Increased interest in energy-related purchases was most dramatic in the categories of solar water heaters, solar reflective film, automatic setback thermostats and woodburning stoves. However, caulking and weatherstripping were still purchased more often than any other energy product.

While only 1.6% of respondents had purchased solar water heaters during the previous 12 month period, 10.1% planned to do so over the coming year. Further, more than 9 of 10 respondents who planned to purchase the item also planned to install it without outside help, while only 65% of those who had made such a purchase the previous year installed the product themselves.

While only 1.3% of respondents had purchased solar reflective film the previous year, 3.7% planned to do so over the next 12 months. Reflective window film was already installed in the homes of 3.1% of respondents.

Although 15.1% of respondents already had automatic setback thermostats, 6.5% planned to purchase them over the next 12 months compared with only 3.1% who had done so the previous year.

And 5.5% of respondents had purchased a woodburning stove the previous 12 months, but 7.3% planned to do so over the coming year, while 38% already had one installed in their homes.

Despite these increases, the most popular energy products remained the old standbys of caulking and weatherstripping.

Nearly half the respondents said they planned to purchase either product over the next 12 months, and nearly 70% had purchased the product the previous year.

Over 40% of respondents planned to purchase insulation over the next 12 months, about the same number that had done so during the previous year.

Fiberglass/mineral wool batts were the most popular insulation, and while styrofoam sheets and boards were only a third as popular, they still ran far ahead of loose cellulose, thermax and loose fiberglass.

Respondents who had purchased insulation the previous 12 months spent an average amount of $120.

Energy Product Purchasing Decisions

Product	Plan to Buy in next 12 months (%)	Bought in last 12 months (%)
Caulking/weatherstripping	48.7	68.6
Insulation	40.2	41.5
Storm windows/doors	20.8	25.4
Ceiling fans	15.5	19.5
Solar water heaters	10.1	1.6
Wood burning stoves	7.3	5.5
Automatic setback thermostat	6.5	3.1
Solar reflective window film	3.7	1.3
Kerosene heater	2.2	7.3
Electric quartz heater	1.2	3.1
Other electric room heaters	1.0	3.5

More subscribers to survey respondents plan to buy caulking and weatherstripping than any other energy product.

Source: New Shelter. NHCN chart.

A recent energy products survey revealed shopping patterns and purchasing plans of 1,602 subscribers to New Shelter, *a national consumer publication.*

Places where energy products were purchased in the last 12 months (% of respondents)

Lumberyard	62.5%
Hardware store	52.1
Home center	38.0
Sears	29.5
K mart	25.7
Plumbing supply store	19.4
Electrical supply store	18.6
Paint store	12.5
J. C. Penney	5.6
Ward/Jefferson Ward	4.3
Other	13.9

Respondents purchased energy products at lumberyards, hardware stores and home centers more often than at other retailers.

Source: New Shelter